NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Inc
Washington, D.C.

S. HRG. 99-285

REAUTHORIZATION OF THE FOOD STAMP PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON NUTRITION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

JUNE 14, 1985

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE

53-459 O WASHINGTON : 1985

S161-30

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas	EDWARD ZORINSKY, Nebraska
RICHARD G. LUGAR, Indiana	PATRICK J. LEAHY, Vermont
THAD COCHRAN, Mississippi	JOHN MELCHER, Montana
RUDY BOSCHWITZ, Minnesota	DAVID H. PRYOR, Arkansas
PAULA HAWKINS, Florida	DAVID L. BOREN, Oklahoma
MARK ANDREWS, North Dakota	ALAN J. DIXON, Illinois
PETE WILSON, California	HOWELL HEFLIN, Alabama
MITCH McCONNELL, Kentucky	TOM HARKIN, Iowa

GEORGE S. DUNLOP, *Chief of Staff*
J. ROBERT FRANKS, *General Counsel*
CARL P. ROSE, *General Counsel and Staff Director for the Minority*
WARREN B. OXFORD, *Chief Clerk/Printer*

SUBCOMMITTEE ON NUTRITION

BOB DOLE, Kansas, *Chairman*

PAULA HAWKINS, Florida	TOM HARKIN, Iowa
RICHARD G. LUGAR, Indiana	ALAN J. DIXON, Illinois
RUDY BOSCHWITZ, Minnesota	JOHN MELCHER, Montana

CONTENTS

Page

Dole, Hon. Bob, a U.S. Senator from Kansas 1

CHRONOLOGICAL LIST OF WITNESSES

Bode, John, Acting Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture, accompanied by Virgil Conrad, Deputy Administrator for Family Nutrition, Food and Nutrition Service 2
Atkins, Charles M., commissioner, Massachusetts Department of Public Welfare 16
Fulton, Robert, director of Oklahoma Department of Human Services 29
Richman, Stephen, chairman of the Education and Human Resources Committee of the National Association of State Budget Officers 43
Weicher, John C., F.K. Weyerhaeuser scholar in public policy research, American Enterprise Institute 50
Greenstein, Robert, director, Center on Budget and Policy Priorities 55
Flower, Ruth, legislative secretary, Friends Committee on National Legislation 72

APPENDIX

Dole, Hon. Bob, a U.S. Senator from Kansas, statement 77
Bode, John W., Acting Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture, statement 78
Atkins, Charles M., commissioner, Massachusetts Department of Public Welfare, statement with attached letter to Senator Helms from Governor Dukakis 84
Fulton, Robert, director of Oklahoma Department of Human Services, statement with attachments 89
Richman, Stephen L., chairman, Committee on Education and Human Resources of the National Association of State Budget Officers, statement with attachments 104
Weicher, John C., F.K. Weyerhaeuser scholar in policy research, American Enterprise Institute, statement with attachments 119
Greenstein, Robert, director, Center on Budget and Policy Priorities, statement 127
Flower, Ruth, Friends Committee on National Legislation, statement with attachment 137
Fuster, Hon. Jaime B., Resident Commissioner of Puerto Rico, statement 148
Kean, Hon. Thomas H., Governor of New Jersey, on behalf of the Governors' Association, statement, with preceding letter from Governor Kean to Senator Dole 154
American Association of Retired Persons, statement 161
Food Marketing Institute, statement 169
Marshall, Eleanor, fellow, health and nutrition policy, Community Service Society, statement 173
Lutheran Council in the USA, statement 175
Zaucha, Thomas K., president and chief executive officer, National Grocers Association, statement 177
Daliot, Jose A. Ortiz, director, Puerto Rico Federal Affairs Administration, letter of June 24, 1985, to Senator Dole, with attached statement of Rafael Hernandez-Colon, Governor, Commonwealth of Puerto Rico 182

REAUTHORIZATION OF THE FOOD STAMP PROGRAM

FRIDAY, JUNE 14, 1985

U.S. SENATE,
SUBCOMMITTEE ON NUTRITION,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SR-328-A, Hon. Bob Dole (chairman of the subcommittee) presiding.

Present: Senators Dole and Boschwitz.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. We will start the hearing. I think Senator Boschwitz, Senator Harkin, and Senator Melcher may be along later.

I have a statement which I ask to be made part of the record.[1]

This is the first food stamp hearing to be held in the committee this year. It is the first hearing we have had for some time when we are not under a lot of budget pressures with regard to the food stamp program. This is an important hearing. I am pleased to be the chairman of this Nutrition Subcommittee. This is the one subcommittee that I kept when I became the majority leader.

We have made changes in the Food Stamp Program in 1981 and 1982, and I believe that, over the fiscal period 1982-85 we were able to achieve about $7 billion in savings.

I think that it is time now that we take a look at the program from another perspective. Most of the changes made were certainly necessary. However, we want to make certain that the program is working effectively, that low-income Americans who depend upon this program are being reached, and that the benefits go to those who need them—not all of those who want food stamps, but those who need them.

The Senate-passed budget resolution includes savings of $78 million for 1986; $155 million for fiscal year 1987; and $224 million for fiscal year 1988. I believe that we can achieve savings without doing anything that will mean benefit reductions for recipients.

We made it a policy in all of our deliberations on the budget that we would make certain we were very sensitive to programs that would affect low-income Americans, whether it be in food stamps or any other Federal program.

[1] See p. 77 for the prepared statement of Senator Dole.

Senators Boschwitz, Leahy, Andrews, Danforth, and Hatfield, and I have introduced S. 1142, the Domestic Food Assistance Act of 1985, which extends the Food Stamp Program for 4 years. I think that this legislation, if passed, would achieve the savings that I have referred to.

Our first witness is John Bode. Is he down there?

John Bode, the Acting Assistant Secretary of Agriculture, Food and Consumer Services, U.S. Department of Agriculture.

STATEMENT OF JOHN BODE, ACTING ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY VIRGIL CONRAD, DEPUTY ADMINISTRATOR FOR FAMILY NUTRITION, FOOD AND NUTRITION SERVICE

Mr. BODE. Thank you Senator, I am accompanied by Mr. Virgil Conrad, Deputy Administrator for Family Nutrition, Food and Nutrition Service, U.S. Department of Agriculture.

Before going over the highlights of the administration's legislative proposals for reauthorization of the Food Stamp Program, I thought that I would take the liberty of giving you a brief status report on the Food Stamp Program.

First, the program is projected to spend approximately $11.8 billion this year in providing food assistance to 35 million low-income Americans. Monthly participation is expected to average 20.2 million. Research recently completed by the Urban Institute, indicates that the Food Stamp Program remains exceptionally responsive to economic conditions following the reforms of 1981 and 1982. Every needy American has access to the Food Stamp Program and record numbers of people have been provided benefits when economic conditions warranted. We remain cognizant of the fact that accomplishment of the management and improvements we are striving for are laudable only so long as timely program services are maintained for those who need.

Although the administration of the Food Stamp Program still has significant room for improvement, I am proud to inform the committee that it is better run today than ever before. This is a result of implementation of legislative reforms of 1981 and 1982 with improved teamwork and accountability.

Our special effort to improve teamwork in the program has us involved in a number of technical assistance activities. Our broad technical assistance initiative is called Operation Awareness.

To summarize, and I will summarize my statement,[1] we are doing a good deal, Senator, to help States know about the management initiatives other States have underway. These are initiatives that produce good, positive results in improving Food Stamp Program operations.

In addition to that, we have specific technical assistance initiatives underway with a number of States and those are listed in my testimony.

Our push for accountability in the Food Stamp Program is an effort to place responsibility at the level where problems can be

[1] See p. 78 for the prepared statement of Mr. Bode.

most effectively addressed. In Food Stamp Program management, as you know so well, one cannot escape the most basic underlying characteristic of the program, and that is that benefits are 100 percent Federal dollars while the administrative costs are shared by the Federal and the State levels of government. Due to this characteristic, States invariably have a very modest amount of funding invested in the Food Stamp Program and as a result, State policymakers are under significant pressure to put other programs ahead of food stamps when setting priorities.

Not that these officials want to encourage waste or error; I am confident that they do not. However, State officials have to set priorities. When States use their own tax dollars to run programs, they are naturally more interested in how those programs are managed. This interest extends from the Governor and the legislature, to the commissioner, and right on down the line.

To help build a strong State interest in prudent management of the Food Stamp Program, we are committed to a strong error rate liability system. States are in the best position to prevent errors. Our liability system establishes a modest fiscal incentive for them to do so.

This combination of teamwork and improved accountability has enabled us to achieve dramatic progress in the management of the Food Stamp Program.

Nationally, between 1981 and 1984, we have cut mail issuance losses by over two-thirds. ATP issuance losses have been cut by over two-thirds.

Fraud claim collections have almost quadrupled. Almost six times as many people have been disqualified for fraud and, of course——

Senator DOLE. How many would that be?

I mean 6 times 1, or 6 times 1,000 or——

Mr. BODE. 19,000 is the level that we are up to. That is a modest number in view of the size of the program, but we are making significant improvements. I am afraid that this area is one where we still have significant room for improvement.

We would be pleased to submit a full series of numbers on that subject for the record.

Senator DOLE. Right, because I think that these are the areas that give the Food Stamp Program a bad name. It was not too many years ago that Senator Goldwater came to this committee with an ad indicating that, if you are an airline pilot, you could probably qualify for food stamps. That may have been 4 or 5 years ago, but it has taken that long to try to overcome the image problem. It is like the toilet seats and hammers at the Pentagon.

If you have any of those hammers or other things in here, we ought to flush them out.

Mr. BODE. We still have some problems in the management of the Food Stamp Program with close to $900 million a year being misspent. And that is the documented number through our quality control sanction system. We still have some significant problems. I guess the story to tell is that it is getting a lot better and we are dedicated to improving program management. In doing so, we can better help the people who need assistance and restore public confidence in the program.

Of course, I do want to mention that through 1983, our 15 percent reduction in the Food Stamp Program quality control error rate is an unprecedented decline that has saved the taxpayers nearly $200 million.

Against that backdrop, I will summarize the legislative proposals that we have made.

Senator DOLE. Do you have in here where the misexpenditure of the $900 million comes from? How do you get to the $900 million? Is that explained here?

Mr. BODE. That is our quality control system. States sample the case files and they check to see if cases were handled properly. Then Federal officials review the State sample. That provides us with a statistically valid indication of the level of overissuances. That is the amount of benefits going to people who are ineligible and the amount of benefits going to people who are eligible in excess of what they are entitled to.

And all of that totals up, now, to approximately $900 million a year. Not all of that is fraud, of course, but regrettably a significant portion of it is.

We are recommending this year to extend the Food Stamp Program authorization through 1989. In addition, we recommend the extension of the Puerto Rican Nutrition Assistance Program, Commodity Supplemental Food Program, commodity distribution authority for institutions, disaster areas, summer camps, the Trust Territories, and Indians all through fiscal year 1989.

We also are proposing some initiatives to adjust the relationship between Federal and State levels of government. For the Food Stamp Program, we are proposing to offer States greater flexibility in administering the program through our proposals. Most significant is an optional nutrition assistance grant. A State which chooses this option, will receive funding equal to its administrative grant under a second proposal which I will describe plus the value of benefits issued in the State during the preceding year.

Benefits would be adjusted on the basis of changes in food prices and unemployment levels as well as other factors established by the Secretary. The State can use each year's funds either in the year they are appropriated or during the following year.

A State which chooses this option will submit a plan for the Secretary's approval and will have considerable latitude in designing its program. There will be an assessment of the food and nutrition needs of the State's low-income residents and a description of the assistance to be provided and the people to be assisted. The plan will require the State to assure that assistance is provided to the States' most needy.

Under the proposal, the States will have an opportunity to design a food assistance plan for low-income persons that meets local needs more effectively and efficiently than the current Food Stamp Program. Basically, we believe that States should be given the option of designing their own food assistance program with one basic requirement: That all of the money should be dedicated to the program which provides nutrition assistance to the States' low-income populations.

Senator DOLE. Where do you get the $840 million?

Mr. BODE. The $840 million has to do with our administrative grant. We propose that this year's level of Food Stamp Program administrative funding be put into a grant to the States that would——

Senator DOLE. Oh, it is not new money?

Mr. BODE. No; and on the State option nutrition assistance plan, that is a budget neutral proposal that States can opt into or opt out of. We believe that States could do a good deal to——

Senator DOLE. Has there been any interest expressed by any States in this program?

Mr. BODE. Yes, sir, a number of States expressed interest in the program and several States have come out and——

Senator DOLE. Kansas, for example?

Mr. BODE. Kansas has not. I call to mind North Carolina, Alabama, New Hampshire, West Virginia, South Carolina, Indiana, Alaska, and Oregon; you will hear testimony from the commissioner from Oklahoma later today and I am sure that he will want to speak to this subject.

At any rate, we feel that States, if given the opportunity and the discretion they can do a lot to streamline the program and actually do a better job of providing assistance to low-income people in their State.

We are also proposing to establish greater emphasis on the positive value of work experience in employment by mandating that States establish a work program which incorporates the operation of the job search and the community work experience program.

Our proposal will allow States to phase in the community work program over a 3-year period and it will place a minimum of 25 percent of the employable caseload in community work experience in the first year; 50 percent in the second year; and 75 percent in the third. This change is compatible with AFDC legislative proposals, offering the prospect of compatible work requirements between the two programs. I know that compatibility between the programs has been a longstanding interest of yours, Senator.

Community work experience is now an option in both the Aid to Families with Dependent Children Program, and food stamps. However, it has been much more widely implemented for AFDC than food stamps. Part of the reason for this is that States share in the benefit savings achieved through AFDC community work experience. Because of our program's funding structure, States do not save State benefit money if food stamp rolls drop because of community work experience.

If we look at the difference between current AFDC and food stamp community work experience implementation, 15 States have AFDC community work experience in some counties and 7 States are running it statewide. That is a total of 22 States with regular community work experience programs and AFDC.

In addition, several States have community work experience program components in their WIN (work incentive) demonstration projects or under other authorities. So about half the States have AFDC community work experience in some form.

This effort contrasts with the Food Stamp Program which has very much a similar authority; a total of 17 counties and cities, in the 9 States have Food Stamp Community Work Experience Pro-

grams. No State approaches a statewide CWEP and without question there is a striking difference in work experience program implementation.

From this we feel that it is clear that CWEP can be effectively implemented on a broad scale. It is also clear that the Food Stamp Program structure does not offer incentives of sufficient strength to overcome the bureaucratic inertia and advocacy group opposition so frequently encountered with respect to this program's optional implementation. These factors stand as the major obstacles to the implementation of optional community work experience in the Food Stamp Program even in the areas receptive to the modest incentives offered by the AFDC Program.

It is only right that some percentage of the work-eligible food stamp recipients in each State return some service to their community in exchange for the assistance that they receive. This is particularly true in light of the fact that those who participate in community work experience program activities tend to move off the food stamp rolls and into regular employment more quickly than those who do not.

To complement these changes and to provide an appropriate financial inducement, we are proposing a separate grant set at $92 million to State agencies to assist them in establishing work programs. Funding will increase to $240 million as the percentage of the employable caseload for which States are required to provide community work experience assistance increases from the 25 to 75 percent level over the 3-year implementation schedule we propose.

Based on the experience in the AFDC Program and the related demonstrations, it is our strong conviction that mandatory community work experience will benefit both program participants and communities.

We have a number of other proposals and I will just touch on those, Senator.

One is to reflect in the law our current and policy with respect to vendor payments. There has been some litigation on that subject, and clarification of current and longstanding policy would be helpful.

We are also proposing a $50 annual fee for retailers and wholesalers who redeem food stamps. That is to recover part of the $14 million cost which is annually spent by the Food and Nutrition Service to monitor and supervise the approximately 230,000 stores which redeem food stamps.

A further proposed amendment would prohibit the authorization of disqualified stores following sales or other transfers unless the appropriate penalty has been paid.

Presently some stores are evading disqualification by simply transferring ownership of the store. We believe that it is essential to stop this circumvention in order to maintain the Food Stamp Program's integrity.

Finally, we propose to prohibit the authorization of new commodity supplemental feeding programs, in areas which are served now by WIC programs.

Currently both programs can operate in the same area but individuals are barred from participating in both programs. This proposal will reduce the need to police dual participation and thereby

prevent program abuses. It has no effect on current commodity supplemental feeding program sites.

One other subject that I would like to touch on quickly, Senator. Chris Bolton of your staff mentioned to me on the phone last night that she was hoping we would briefly address the Temporary Emergency Food Assistance Program, and it was not in my prepared testimony, but I would like to outline that the administration remains committed to the distribution of surplus commodities through this type of program.

As you know, we started distributing commodities before this legislative authority was provided and we intend to continue it. We are not recomending extension of that temporary authority because we do not believe that it is essential in this time of tight budgets to continue the $50 million in administrative funding that it authorizes. But whether the administrative funding is provided or not, we do intend to continue to distribute those commodities.

Senator DOLE. When does that expire?

Mr. BODE. That expires at the end of the fiscal year.

Senator DOLE. How many people participate in the program now? You indicate, 35 million. Is that a decline or an increase?

Mr. BODE. Senator, the 35 million figure represents the number of people who participate in the Food Stamp Program over the course of the year. The average monthly participation is a little over 20 million and that does represent a decline from periods when unemployment was higher. The program's participation is very responsive to rates of unemployment and prevailing economic conditions.

Senator DOLE. What were the highs say, back in 1982 or 1981?

Mr. BODE. Participation was at 21.6 million.

Senator DOLE. And what is participation now?

Mr. BODE. Now, it is 20.2 million.

Senator DOLE. What were the overall figures in 1981 and 1982?

Mr. BODE. Average monthly participation was 20.6 million in fiscal year 1981 and 20.4 million in fiscal year 1982.

Senator DOLE. All right.

So now participation is closer to where it was in 1981 and 1982?

Mr. BODE. Yes, sir.

Puerto Rico is edited out of this?

Correct.

Senator DOLE. And participation is still up 4 million from 1975?

Mr. BODE. Yes, sir, and as you know, the changes made in the program in 1981 and 1982 were very carefully considered. They were judicious changes that did not significantly affect the basic structure of the Food Stamp Program.

Everyone who is in need and whose gross income is less than 130 percent of the poverty guideline and meets the assets test is eligible to receive Food Stamp Program benefits.

Senator DOLE. I guess one concern of the optional block grant proposal is there is a feeling that it is an attempt to shift the funding to the States.

Is there any assurance this will not happen? Then there is also the issue that, if unemployment should increase dramatically, the Federal Government would not be around to help. Is there some

way we can assure those involved in these State programs that this would not be the case?

Mr. BODE. Yes, sir.

I think that there are two characteristics of the proposal that I would point out. First, this is an optional proposal. Every State will have a good opportunity to look at——

Senator DOLE. Can they shift back and forth?

Mr. BODE. Yes, they can shift back and forth. No State would have to exercise this option or remain in it permanently.

Senator DOLE. They could stay on it 1 year and then come back to the regular program?

Mr. BODE. Yes, sir.

They are going to make that decision on their own whether the proposal is good for them. In addition to that, though, we intend to use the authority that we have requested for the Secretary to have flexibility in adjusting these grant levels. We know that our estimates are not perfect on projecting the exact grant level. We believe that it would be appropriate during the course of the grant year, to go back and adjust the grant level if we underestimated the level of unemployment and resulted in the grant to be too low. That would be taken into consideration and be reflected in an adjustment of the grant level.

And all of that would be spelled out in the regulations before the States make their decisions. It is designed to be budget-neutral and is not an indirect way of cutting the program.

Senator DOLE. Reducing the recipient numbers?

Mr. BODE. Yes.

Senator DOLE. With regard to the recent study on the block grant in Puerto Rico, did you find any adverse impact on the likelihood of recipients buying food because they were given cash rather than coupons?

Mr. BODE. No, sir.

There were two signficant findings in that study. And one is that there was no reduction in levels of household food expenditures because of the Commonwealth's decision to change the benefit form from a coupon to a check sort of benefit delivery system.

The second one is that the Commonwealth was able to cut their administrative costs by 18 percent. Now, if one looks at the optional Nutrition Assistance Grant that we are proposing in light of the Commonwealth's achievement of that lower level of administrative funding, the States could come close to that in administering an optional grant, they could put that much more money into assistance for low-income people. So we would spend less on bureaucracy and more of the money going into benefits for those who are in need.

Senator DOLE. Well, would there be an opportunity for States under the optional program, to opt for cash rather than coupons?

Mr. BODE. Yes, sir.

We felt it was important in designing the optional nutrition assistance grant proposal to allow very broad discretion for the States in design of the program. If they exercise the option, they are taking on the responsibility, and we believe they should also have the discretion or deciding the benefit form. That way they could do the best job of cutting administrative costs that are not truly necessary so that the Nutrition Assistance Program meshes

well with other programs in that State and has the most streamlined and equitable system of getting benefits to those in need.

Senator DOLE. Are the retailers objecting to the $50 fee?

Mr. BODE. Yes, they certainly are, Senator. No question about that.

We believe the fee is appropriate, though, because we are——

Senator DOLE. Everybody pays $50 whether a store is large or small?

Mr. BODE. That is correct. Under our proposal, all stores would pay $50 for the license, if you will, to redeem food stamps.

We felt $50——

Senator DOLE. Is there any way that a graduated fee——

Mr. BODE. I guess my concern is that the fee should not be a large fee or one that is a strong disincentive that would keep stores from redeeming food stamps. And we felt $50 was a rather modest level of fee.

We have provided waiver authority in our proposal so that if a store is the only store in the area that is redeeming food stamps for households, we can waive that fee in that kind of a situation.

We are spending about $14 million a year in working with those 230,000 retail stores, and if we could recover part of that cost, it would help. And we do think it is appropriate to recognize that we have got about $11 billion worth of food stamp benefits going through those stores.

Senator DOLE. How many establishments are there that are retail outlets?

Mr. BODE. There are 234,000 retail outlets. There are a few wholesale outlets. Almost all are retail outlets, redeeming food stamps now.

That is a lot of stores to get around and provide information to on the program rules and monitor their compliance.

Senator DOLE. I have spoken to the retail grocers a few times, once recently. They are not interested in any monitoring or anything like that. They just want the business. They are very objective.

If you do not want to participate in the program, you do not have to pay the $50. That is optional, too, though.

Mr. BODE. Oh, yes, sir.

And I guess some stores might find it, a small number of stores might find the $50——

Senator DOLE. I mean selling groceries is not a public service. They do make a profit, do they not?

Mr. BODE. They make a profit. I would say they also provide some service in the fact that they are redeeming food stamps, but there is good reason why stores will——

Senator DOLE. They make less profit with food stamp purchases?

Mr. BODE. No. No, sir.

They make just as much profit with food stamp purchases, and we feel it is appropriate that $11 billion that goes through those stores in the form of food stamps be recognized.

That is a significant help to those stores, I would——

Senator DOLE. Well, do they make any other payments in AFDC or other welfare programs?

Mr. BODE. No, because in AFDC and other similar programs the benefits are provided in a noncoupon form.

The only other program is the WIC Program that provides vouchers of that sort, and they do not pay a fee in that program.

Senator DOLE. I can see that this might be a matter of some controversy.

Mr. BODE. It seems to be.

Senator DOLE. Good luck.

I do not have any additional questions. There may be questions when other members appear, so, if you could stick around awhile. That would be helpful.

I will put in the record letters that Senator Helms has in support of the optional block grant concept from different States—Missouri, Alabama, and other States.

[The letters referred to by Senator Dole follow:]

STATE OF ALABAMA,
GOVERNOR'S OFFICE,
Montgomery, AL, May 14, 1985.

Hon. BENJAMIN L. ERDREICH,
U.S. Representative, Cannon House Office Building, Washington, DC.

DEAR BEN: Administrators of the Food Stamp Program in Alabama have brought to my attention some of the more critical provisions of proposed legislation contained in S. 616, the comprehensive farm bill that includes a title providing for the reauthorization of the Food Stamp Program effective October 1, 1985.

After careful consideration of S. 616, we should like to share with you our views on four areas of concern dealing with the Food Stamp Program and to request your support of our recommendations as outlined below:

1. State option block grant

We endorse the concept providing optional Block Grants to states for funding the Federal Food Stamp Program. We have been concerned for many years over the cumbersome and ever-changing federal regulations which have resulted in a continuous increase in the cost of administration on the part of state governments.

2. Reinstatement of purchase requirement

We strongly oppose the proposal to reinstate the purchase requirement to obtain food stamp benefits. While we acknowledge that case loads have increased substantially since the elimination of the purchase requirement in January of 1979, we feel this increase was due to a number of factors such as the economic conditions prevailing during recent years. We are concerned that reinstatement of this requirement would make program participation difficult for many low-income families in Alabama.

Enactment of this proposal would also increase administrative costs to states for storage and security for large sums of cash. The vulnerability to theft and constant threat of danger to employees is of major concern.

3. Fiscal sanctions

While we, in Alabama, are dedicated to the elimination of fraud, waste, and abuse in the Food Stamp Program, we must voice our strong opposition to placing additional financial liabilities on states in the form of fiscal sanctions as an incentive to states to achieve a low quality control error rate. This bill would change the method of computing a sanction from the current percentage of federally-reimbursed administrative costs over and above a five percent error rate tolerance level to the actual amount of dollars overissued in each state in excess of a three percent tolerance level. Based on fiscal year 1984 data, we estimate the cost to Alabama would amount to approximately $16 million annually if this proposal is enacted.

We feel that the development, implementation, and monitoring of strong corrective action plans based on identified errors is a more effective approach for states to reduce quality control errors than to decrease federal funding for administrative cost.

Another important factor we wish to call to your attention is the incompatibility of Federal Quality Control rules and Food Stamp Program rules. Quality control reviewers have broad investigative powers and resources to conduct extensive exami-

nations of a household's circumstances; whereas, Food Stamp Program rules, resources, and volume of applications limit in-depth investigations. Methods for determining a household's income and expenses vary considerably between the quality control and food stamp rules, thus resulting in quality control errors. It is essential that quality control and food stamp rules be designed to be compatible. We recommend that careful consideration be given to revising the current Quality Control system which holds state government liable for errors attributed to clients. We believe it is administratively impossible to prevent all client errors considering the complexity of program rules and the likelihood of client misunderstanding. For the last reporting period, approximately 68 percent of the Food Stamp Program dollar error rate was attributed to clients.

After consideration of all factors, we do not feel that the proposed three percent tolerance level is a reasonable or attainable goal and could be extremely costly to Alabama.

4. Transfer for sales tax imposed on food purchased with food stamps

We wish to voice our strong opposition to the proposal which would require the transfer to the Secretary of the Treasury sales tax revenue from the sale of food purchased with food stamps in the state or any political subdivision thereof.

Alabama's portion of funding costs to administer the Food Stamp Program is paid from the collection of sales tax on food stamps. Under this proposal, current state and local revenue now generated from the redemption of food stamps would be refunded to the Secretary of the Treasury and municipalities and counties would be required to refund any local sales taxes received from the sale of food purchased with food stamps. Enactment of this proposal would cost the State of Alabama approximately $13 million annually, thus necessitating the curtailment of services to the elderly and needy low-income Alabamians. In addition, the loss of sales tax revenue would have a disastrous impact for many local governments.

We are extremely concerned that loss of the sales tax revenue to support the State's share of administration cost would seriously jeopardize the Food Stamp Program in Alabama. It is our understanding that 16 other states have similar means of funding their programs. These are: Arkansas, Georgia, Hawaii, Idaho, Kansas, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, South Dakota, Tennessee, Utah, Virginia, and Wyoming.

Knowing of your concern for the citizens of Alabama, I urge your assistance in regard to the concerns expressed herein. If I can be of help to you in any way in this endeavor, please contact my office or the State Department of Pensions and Security.

With kind personal regards, I am

Sincerely yours,

GEORGE C. WALLACE.

STATE OF NORTH CAROLINA,
OFFICE OF THE GOVERNOR,
Raleigh, NC, May 17, 1985.

Hon. JESSE HELMS,
U.S. Senate, Senate Dirksen Building, Washington, DC.

DEAR JESSE: Thank you very much for sending me copies of Senate Bills 616 and 969, concerning the state option block grant for the Food Stamp Program. I will be pleased to work closely with you on changes to this important assistance program.

Secretary Kirk of the State Department of Human Resources has recently written you with his comments on the State option block grant proposal as given in S. 616. I endorse his comments, and support the block grant option as outlined in that bill.

In reviewing S. 969, I do find one objectionable provision. In the amended language to Section 20 of the Food Stamp Act, paragraph (c)(1)(D), S. 969 states that the state's plan shall "comply with all the program requirements prescribed by the Secretary for the purpose of assuring that assistance is provided to the most needy persons in the state." While I support the intent of that provision, I am concerned that it will open the door to many of the burdensome and complex regulations imposed on states under existing legislation. My willingness for this State to operate a Food Stamp Block Grant would be contingent upon our freedom to operate the Program in the freest possible manner.

I appreciate your interest in my response to this proposed legislation. Please do not hesitate to contact me again if I can assist you in any way.

Best personal wishes.

Sincerely,

JAMES G. MARTIN.

DEPARTMENT OF HUMAN RESOURCES,
Raleigh, NC, May 9, 1985.

Hon. JESSE HELMS,
U.S. Senate, Dirksen Building, Washington, DC.

DEAR SENATOR HELMS: I have had an opportunity to review the Food Stamp portion of the Farm Programs Bill you recently introduced, S-616. I am providing my comments as an attachment to this letter.

I am committed to the Food Stamp Program as a major component of assistance to our low income citizens, and support strengthening the Program, provided costs can be contained. I will appreciate your consideration of these comments, and will be pleased to work with you in any way possible to improve the Program.

Please let me know if I can answer any questions or provide any other assistance to you.

Sincerely,

PHILLIP J. KIRK, Jr.,
Secretary.

Attachment.

1. STATE OPTION BLOCK GRANT

I find the Block Grant proposal very attractive. A major benefit would be our ability to simplify Program administration, and achieve some long overdue coordination between the Food Stamp Program and other Income Maintenance Programs.

While I can foresee situations where expenditures might use up our annual allocation before the fiscal year ended, I believe this State could respond adequately to any need for increases. With a balanced budget here as opposed to a $200 billion Federal deficit, I support funding any shortfalls locally.

2. FRAUD, WASTE, AND ABUSE PROVISIONS

I fully share your concern over minimizing payment errors in the Food Stamp Program, and am proud that this State is now in the forefront of such efforts. I want to see our error prevention efforts continue with the realization that administrative expenses may increase at the same time.

This may be the case if the Food Stamp error tolerance were dropped to 3 percent. The Food Stamp Program has a very high proportion of households which include a wage earner with fluctuating income. This type of income is the most difficult to properly reflect in a Food Stamp budget. I think this fact, coupled with the Program's complexity, make it inevitable that the error rate will at least occasionally rise above 3 percent. At our current benefit issuance levels, North Carolina would pay over $2.4 million for each point above 3 percent.

I urge you to consider a sytem that will provide strict yet reasonable error rate tolerances, coupled with much needed reforms of the QC system. While an effective QC system is necessary, the present one inlcudes penalties for technical errors and has other inequities. The bill introduced recently by Representative Matsui addresses these concerns in what I think is a wise manner. This bill governs the AFDC Program only, however. I ask your consideration of similar legislation for Food Stamps.

3. MANDATORY WORKFARE

As I have written you earlier, we support the Food Stamp Workfare concept, and are actively working with a number of North Carolina counties now in this area. Under the present optional system, counties participating in Workfare have shown excellent support for the concept, and I think this contributes greatly to its success. I would like to see the optional feature remain, provided additional counties continue coming into the Program. I may change my position later if additional counties don't choose to participate.

4. REINSTATEMENT OF PURCHASE REQUIREMENT

I can appreciate your concern that Food Stamp benefits should go only for their intended purpose, and can see some logic in your argument that reinstatement of the purchase requirement would achieve this end. However, a cash purchase requirement would prevent use of direct mailing of food stamp coupons to households, an issuance method used by half of our counties. Mail issuance has proven to be an inexpensive issuance method which has substantial advantages both to administrators and recipients. If we were forced to substitute ATP issuance for our existing

mail issuance volume, our administrative costs would increase by an estimated $800,000 annually.

I would suggest instead that we examine further incentives for states to utilize systems such as the electronic benefit transfer procedures now being tested in Reading, Pennsylvania. This or some similar automated system would assure that benefits would go only for food purchases, and at the same time not have adverse administrative impact.

5. PROGRAM WIDE FREEZE

A freeze of Program benefit levels would be a fair way for the Food Stamp Program to contribute to limiting federal spending. Many other federal spending programs should receive similar limitations.

6. ELIGIBILITY AND BENEFIT LEVEL FREEZES

While it is true that eliminating the $10 minimum benefit would result in Program savings, many of the one and two person households receiving this benefit are elderly. I would urge you to carefully consider the impact of this change on this vulnerable part of our population.

Counting the value of school lunches and similar programs would have administrative impact on the Food Stamp Program. I would strongly urge that if this is adopted, that a standard, unverified amount be used to add to the household's countable income. Otherwise, the expense of properly matching and verifying these expenses would be great.

7. PHASE DOWN OF ENHANCED FUNDING OF COMPUTER SYSTEM DEVELOPMENT

I support this provision. I do want to point out that with the short time this proposal would leave for obtaining enhanced funding, the Department of Agriculture should be required to respond very promptly to State requests.

8. STATE FLEXIBILITY ON SEPARATE HOUSEHOLD RULES

I support this provision.

9. ELIMINATION OF CASH CHANGE

While the present cash change system does allow recipients to convert a small amount of Food Stamp coupons into cash, the alternatives appear to be burdensome. For example, one result would be strenuous objections from retailers. I realize that some citizens object to this present system, but we should approach this change with caution.

10. EXPEDITED SERVICE AS STATE OPTION

I support this provision.

11. MANDATORY PHOTO ID CARDS

I can see that photo ID card system, if used as intended, could reduce the incidence of Program abuse in some parts of the country. We estimate that cards would cost approximately $300,000 per year in this state, with a similar sum required for administrative overhead.

Proper use of the cards would depend on vigilant usage by issuance agents, which we would work to assure.

12. OVERISSUANCE COLLECTIONS

I support these provisions.

13. UNEMPLOYMENT INSURANCE INTERCEPT

I support these provisions.

14. REIMBURSEMENT OF STATE SALES TAX

I support removal of the current State sales tax on foods, and Governor Martin is actively working with the General Assembly toward that end.

EXECUTIVE OFFICE,
STATE OF MISSOURI,
May 22, 1985.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, Washington, DC.

DEAR SENATOR HELMS: In response to your request of April 29, 1985, I am forwarding several recommendations which would make an optional block grant for the Food Stamp program attractive to the State of Missouri.

States should have authority to define the eligibility requirements and benefit levels to be paid such as described in S. 616, Section 21(d)(3)(F). The approach taken in S. 969 implies that states would have to comply with federally legislated eligibility standards and benefit levels and this is not an acceptable condition.

States should be allocated funds in conjunction with the block grant that would not decrease as the years go by. The provisions in S. 969, Section 20(b)(1) are far more attractive than those cited in S. 616, Section 21(b)(4). The provisions in S. 616 allow states with large recent expenditures for administrative expenses to receive a larger share of the total funds as compared to those states which have kept or have had to keep administrative expenditures to a minimum due to state fiscal constraints. This creates an inequity which will remain throughout the period that this legislation would be in effect.

States must be allowed a provision for "carry-over" of block grant funds from one federal fiscal year to the next. Missouri would prefer a provision for "carry-over" similar to that included in the Low Income Heating and Energy Assistance Program (LIHEAP).

Block grant legislation should be specifically stated how the allocation of funds to the states will be accomplished. There should be no provision for alternative formulas such as allowed in S. 616, Section 21(i)(1). Missouri would not be willing to support any legislation which leaves the state in the position of an alternate formula being imposed without prior involvement or knowledge.

Block grant legislation should state whether the state would be responsible for the production of coupons or whether the federal government will continue to bear this responsibility and expense. If it is the state's responsibility to produce the coupons or design another payment system, this should be specified. Missouri would prefer that the federal government continue to produce the coupons.

Missouri would prefer to have biennial audits conducted of any block grant program. This would allow time for the audit to be conducted, for "corrective action" to be defined and implemented, and for the effect of the "corrective action" to appear in the program before the next audit.

Both S. 616 and S. 969 require an assessment of the food and nutrition needs of the person residing with the block grant state. Missouri would prefer that the extent of the assessment be defined in the legislation (e.g., What factors would need to be assessed and over what period of time?).

Missouri would prefer that the role of the block grant state as it relates to advocate groups and concerned citizens be defined (e.g., Are the public hearings to be held by the legislature of the block grant state meant to provide this advocacy access?).

I appreciate your request for my input. Please notify me if you would like further information on any of the issues described above. In addition, please feel free to contact Joseph J. O'Hara, Director of the Missouri Department of Social Services, with regard to S. 616 and S. 969.

Sincerely,

JOHN ASHCROFT,
Governor.

THE STATE OF NEVADA,
EXECUTIVE CHAMBER,
Carson City, NV, June 10, 1985.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate, Washington, DC.

DEAR SENATOR HELMS: Thank you for your letter of April 29, 1985 informing me of legislation introduced to permit states to design and operate optional nutrition programs, under block grants, in lieu of the Food Stamp Program.

I am pleased to hear states may have this opportunity if the legislation becomes law. Because of the wide differences in economic structure and levels of poverty

from state to state, it is important for states to have flexibility when designing and administering public assistance programs.

At this point, it is too early to decide if Nevada would choose an optional block grant program in lieu of the existing funding for the Food Stamp Program. Nevada has received significant amounts of enhanced funding over the past few years because of our hard work to maintain low case errors and to combat fraud and abuse.

Under the optional block grants, it appears enhanced funding for maintaining low error rates would no longer exist. Enhanced fraud funding also appears to be eliminated under the block grant options.

Another concern is that block grant funding would be primarily based on 1984 spending levels by the state in the regular Food Stamp Program. In states with rapidly increasing populations, this funding limit may in effect prohibit states from providing assistance to needy families.

Food Stamp Program administrators will be reviewing the optional block grant proposals over the next few months. We would appreciate receiving any new information that you may provide on this issue.

Sincerely,

RICHARD H. BRYAN, *Governor.*

STATE OF OKLAHOMA,
OFFICE OF THE GOVERNOR,
Oklahoma City, OK, June 20, 1985.

Hon. JESSE HELMS,
U.S. Senate, Washington, DC.

DEAR SENATOR HELMS: Thanks very much for your recent letter regarding the proposed optional Nutrition Assistance Grant.

The concept of an optional Nutrition Assistance Grant is very appealing to the State of Oklahoma due to increased flexibility and removal of possible quality control sanctions.

It appears this option will allow Oklahoma the flexibility to modify and simplify the program as follows:

1. Have a standard household definition for the AFDC and Food Stamp programs;
2. Have common income and resource definitions for those programs;
3. Enable us to raise AFDC benefits without causing an automatic decrease in food stamp benefits;
4. "Cash out" food stamps for the aged, blind and disabled;
5. Get us out of the current morass over fiscal sanctions for quality control errors;
6. Issue food stamps, vouchers or cash;
7. Make our own decisions on whether to utilize monthly reporting and retrospective budgeting;
8. Have the option to convert back to the national Food Stamp Program in the event our experience with the block grant proved unsatisfactory.

There are three questions which need to be answered before we decide to enter into a block grant arrangement:

1. In the event a state chooses to continue using food stamps for all or part of its recipients, who would be responsible for the performance of the retailer functions currently handled by United States Department of Agriculture Food and Nutrition Service?
2. If a state used food stamps, could they be purchased from USDA at their face cost or would the states be billed for things such as: printing; storage; transportation; redemption through the Federal Reserve System; other costs associated with the issuance and redemption of food coupons at the federal level?
3. What adjustments would be made in the block grant, and how quickly could they be made, in the event of a sudden rise in unemployment or a major disaster of some sort? As you know, Oklahoma has recent experience with sudden economic decline, and we are quite concerned about protecting the low income citizens of our State in such situations.

I realize that some of the above questions will need to be answered in the implementing regulations developed by appropriate departments. Nevertheless, it is vital that you obtain Congressional support for flexibility to implement the block grant in such a way that the above concerns will be alleviated. Othewise, I doubt that Oklahoma would choose to initiate the block grant relationship.

We shall watch with great interest the progress of the proposed legislation and, if it is enacted, the implementing regulations. Oklahoma's decision on whether to

apply for the block grant will, of course, take account of the final content of the legislation and regulations. I believe that we will want to participate.

As your staff is aware, Robert Fulton, Director of the Oklahoma Department of Human Services, testified on June 14, 1985, at a hearing held by Senators Dole and Boschwitz on reauthorization of the Food Stamp Act. At that time, Mr. Fulton presented additional comments on behalf of Oklahoma regarding both the proposed nutrition block grant and other aspects of pending legislation.

Thank you for sharing this proposed legislation with us.

Sincerely,

GEORGE NIGH, *Governor.*

Senator DOLE. Where is Bob Fulton? I did not see him around. Let's have the next witnesses come on up. We will not wait for Mr. Fulton. He can be next. In the meantime, we can hear from Charles Atkins who represents the department of public welfare, Commonwealth of Massachusetts.

Bob, why don't you come on up here and take a seat. We will let Mr. Atkins proceed.

Mr. ATKINS. Bob and I may have different points of view, but we work closely together.

Senator DOLE. You are close together now.

If you can give me in summary form the highlights of what you would like to present to the committee, we will ask that your entire statement be made a part of the record.

STATEMENT OF CHARLES M. ATKINS, COMMISSIONER, MASSACHUSETTS DEPARTMENT OF PUBLIC WELFARE

Mr. ATKINS. Mr. Chairman, first of all, I would like to thank you personally on this committee on behalf of the 340,000 recipients of food stamps in Massachusetts. It is something that is quite important to us, and obviously, far more important to them. Your support of this program is something I really do want to thank you for.

I do have written testimony which I would like to submit for the record.[1]

What I would like to do, particularly in response to Mr. Bode's testimony, is to give you a briefing on an employment and training program that we are running in Massachusetts—primarily for AFDC recipients—but since most of them are also food stamp recipients, I thought you would find it of interest, in particular because, while we think this program is quite successful, it would not work under the conditions that Mr. Bode spelled out in his remarks on the administration's proposal.

I completely disagree with Mr. Bode's assertion that public assistance recipients would benefit from participating in a community work experience program. I think that they do not want to "work off" their food stamps, nor do I think it would be beneficial for them or this country to have them do that.

I particularly appreciated your interesting comments about trying to achieve some savings in the Food Stamp Program. The program I am going to show you that we are running in Massachusetts is saving the taxpayers in Massachusetts $30 million a year. Again, this program would not work, under what the administration has proposed for work programs under AFDC or Food Stamps.

---

[1] See p. 84 for the prepared statement of Mr. Atkins.

I did bring with me a set of charts, which I had turned into the committee staff, and if you have them available, I would just briefly like to go through them. They have a nice colorful cover on them. Someone has got them back there. Thank you.

The fancy cover, by the way, is a replica of a large poster that we put up in all of our welfare offices in Massachusetts to try and reach out to public assistance recipients in Massachusetts to get them to participate in this program. We want them to want to work and to become taxpaying citizens employed in unsubsidized jobs. We do not want to force them to work off their grant. We do not think that is productive for them or for us. I think I can show you why as I briefly take you through these charts.

The first page is a summary of what I am going to describe to you. If you would turn the page to the next chart, Mr. Chairman, the page that says chart 1, very briefly stated these are the goals that we set for ourselves in this employment and training program. We think it will take 5 years to achieve these goals of placing 50,000 people into jobs. We do think it will save, conservatively estimated, $150 million.

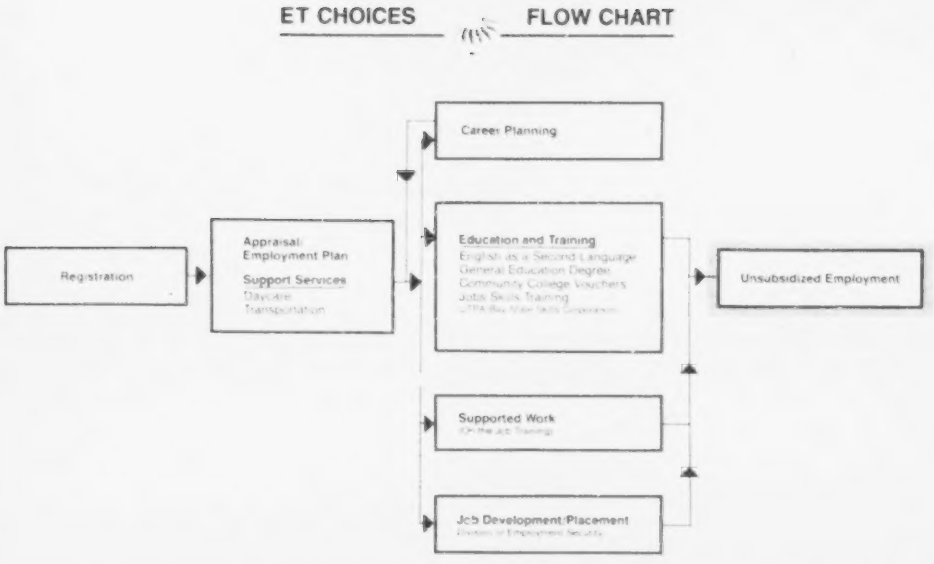
CHART 1

EMPLOYMENT AND TRAINING CHOICES PROGRAM GOALS

- **Place 50,000 Welfare Recipients into Jobs**
- **Reduce Welfare Dependency**
- **Save 150 Million Tax Dollars**

Chart 2 shows the design of the program as we are running it in Massachusetts, but we would not be able to, I repeat, run our program this way under the administration's proposal, contrary to what Mr. Bode described.

CHART 2



Very quickly, registration goes on in 60 local offices across the State. The real key is the development of an employment plan for each of our recipients who wish to participate in this program. We also provide some very important support services to help them get off of welfare and into jobs—primarily day care and transportation—which turn out to be some very fundamental roadblocks to people holding down jobs in our society, in particular for this population because they are largely young mothers with young children and they really do need some day care services in order to work. That would not be available under what has been proposed by the administration.

In Massachusetts, we offer people four choices. And just very briefly, the four choices are displayed in boxes that are shown in the middle of the chart. Starting from the bottom, for those who are job ready, we place people directly into jobs through our Employment Security Agency.

For those people who need on the job training, we have a supported work program.

However, the bulk of our clients need what is shown in that large box, education and training. However, no one participating in education and training would count toward the goals that have been set forth by the administration, as Mr. Bode described, of 25 percent participation next year, 50 percent and then 75 percent.

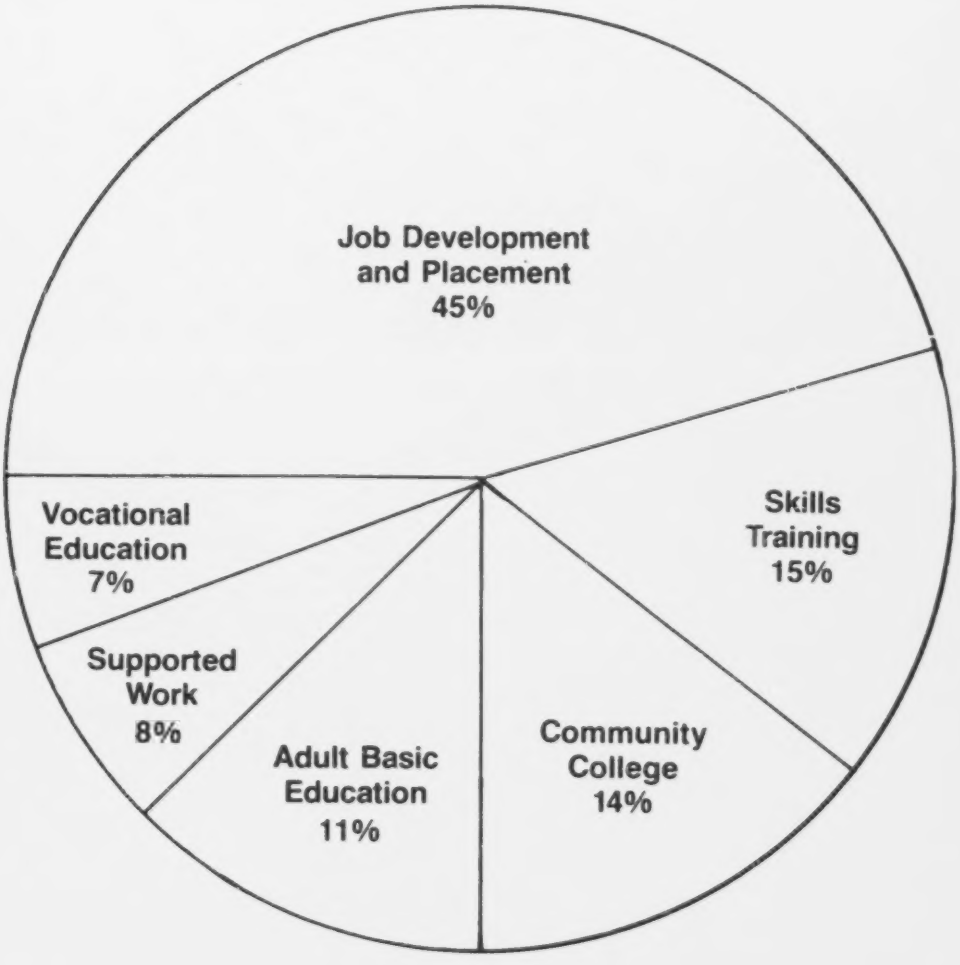
The goal of this whole program is to place people into unsubsidized jobs and we have found that education and training is vital to that effort.

Chart 3 shows the distribution of choices that people have made so far in the program, which is now a little bit over a year-and-a-half old. Forty-five percent of the people who have chosen to participate have gone directly into jobs. Those are, in fact, the folks

who, as Mr. Bode would recommend, can hold down jobs. But the point of this chart, chart 3, Mr. Chairman, is that 55 percent of our clients in Massachusetts are not ready to go into jobs. The reason for that is that they do not have a high school education, they need further education or training in order to hold down a job. Otherwise, they are just going to come right back off the job they are placed into and onto the welfare rolls.

CHART 3

PROGRAM CHOICES BY ET PARTICIPANTS



Note: In addition, 15% of these ET participants also chose Assessment and Career Planning.

Chart 4 shows how we have done to date, which is that we have placed 16,000 people into jobs since the program began a year and a half ago.

CHART 4

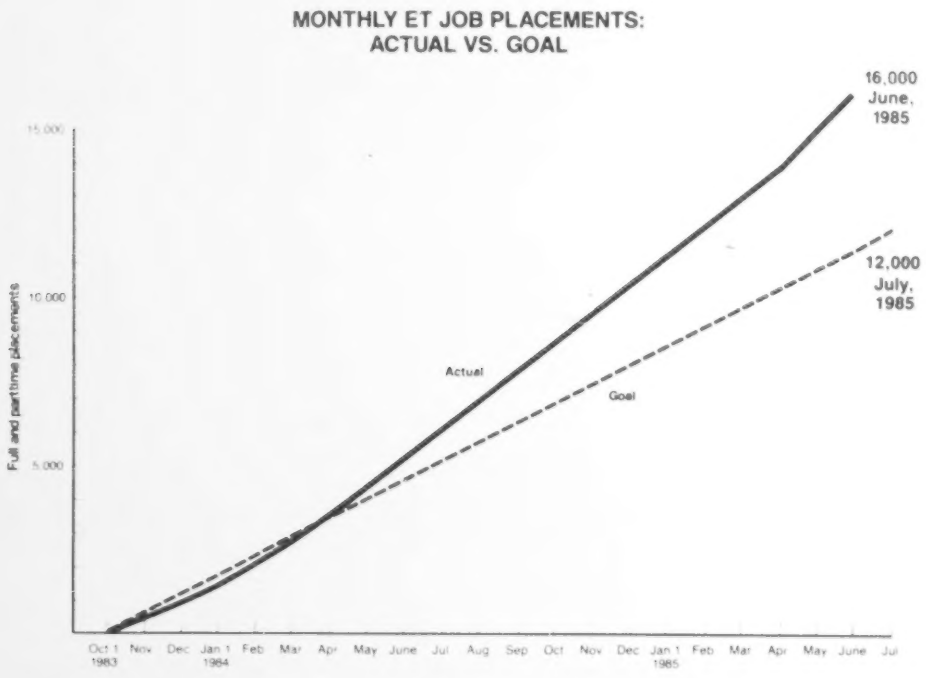


Chart 5, the one that you are looking at, is the distribution of jobs, and what that chart shows is that welfare recipients can hold down jobs just like anyone else in our society if you give them a helping hand, provide day care, transportation, further education or some training. They are no different from anyone else. It destroys the myth that welfare recipients cannot hold down all different types of jobs.

CHART 5

ET FULL TIME PLACEMENTS COMPARED TO ALL JOBS BY PERCENTAGE AND HOURLY WAGE

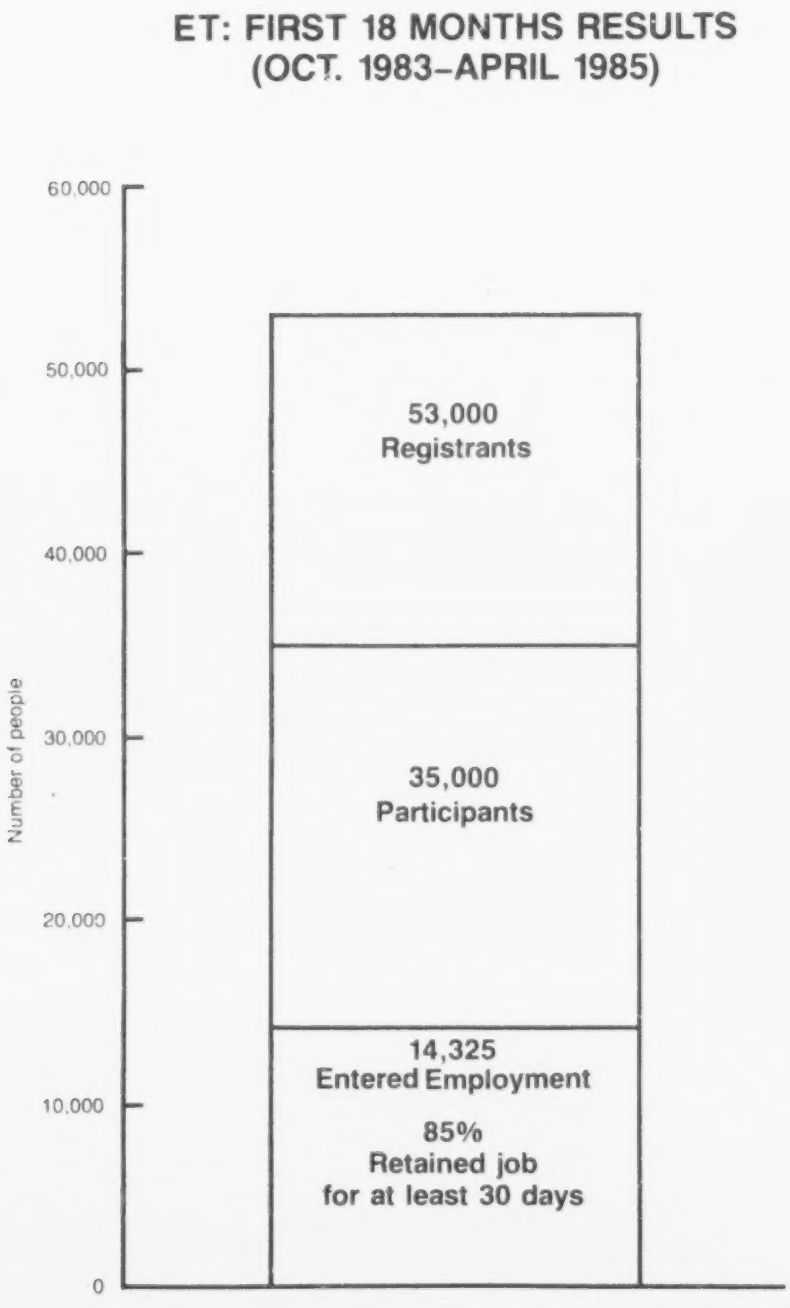
ET CHOICES			All Job Placements*	
Average Hourly Wage	Percentage of Jobs	Occupation	Average Hourly Wage	Percentage of Jobs
$4.64	2%	Farming, Fishing, Forestry	$4.13	5%
4.41	3	Sales	3.61	11
5.66	4	Transportation	5.48	3
4.48	5	Processing	4.34	3
6.81	7	Professional/Managerial	10.48	7
6.66	8	Construction	6.67	8
5.51	8	Machine Trades	5.35	7
4.44	12	Packing/Handling	4.18	15
4.56	13	Benchwork	4.84	6
4.48	18	Service	3.95	19
5.01	21	Clerical	4.09	19

Note: Placements represented are from Division of Employment Security Job Development and Placement Services only; wage rates are taken at 30 days after placement.

Chart 6, which I think is the key to why I disagree with what the administration has proposed, shows that while for the first year-and-a-half of the program we have registered 50,000 people in Massachusetts to participate in this program, we only have enough resources to take care of 35,000 at the present time. And this is with the Commonwealth putting in three times as much State money as Federal money. We will spend this fiscal year $30 million to place

10,000 welfare recipients in Massachusetts into jobs. Only half those people, Mr. Chairman, would be placed through the job search activity that Mr. Bode has recommended all the States have in place beginning next fiscal year.

CHART 6



In other words, if you work up the numbers, even with three times as much State funds as Federal funds, we would not even reach that minimum participation goal of 25 percent, with, what I venture to say, is one of the best programs in the country. I might not be objective about that, but I believe we could not even satisfy what the administration has proposed to do in terms of participation.

One other important thing about chart 6, if you will note at the bottom of it, is that 85 percent of the people who we have placed into jobs through this program are still there at 30 days. The State ran a work fare type program a few years ago, much like Mr. Bode has recommended. Only 37 percent of those people placed into jobs were there after 30 days. My point being that you might temporarily get people off of welfare into jobs, but they are not going to stay off of welfare but come right back on because they will not be able to hold down the jobs that you put them into.

Senator DOLE. Have you done the next obvious 60 days, 90 days?

Mr. ATKINS. Yes. We are continuing that research, and that figure is continuing to hold up.

Chart 7 just simply shows the distribution by sex with the important point that almost 20 percent of the people participating in this program do not have to, they are exempt by Federal law, but they want to work so they are getting off of welfare.

CHART 7

ET JOB FINDERS BY GENDER

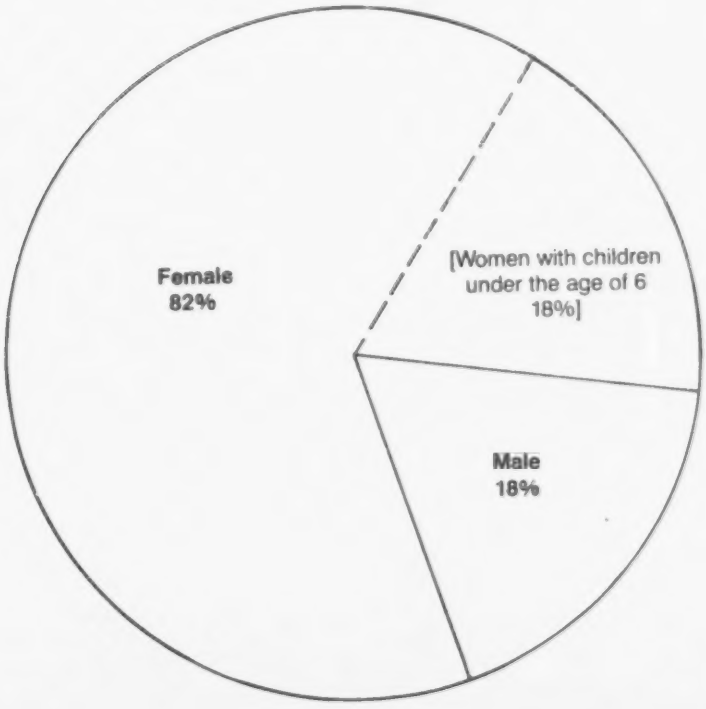
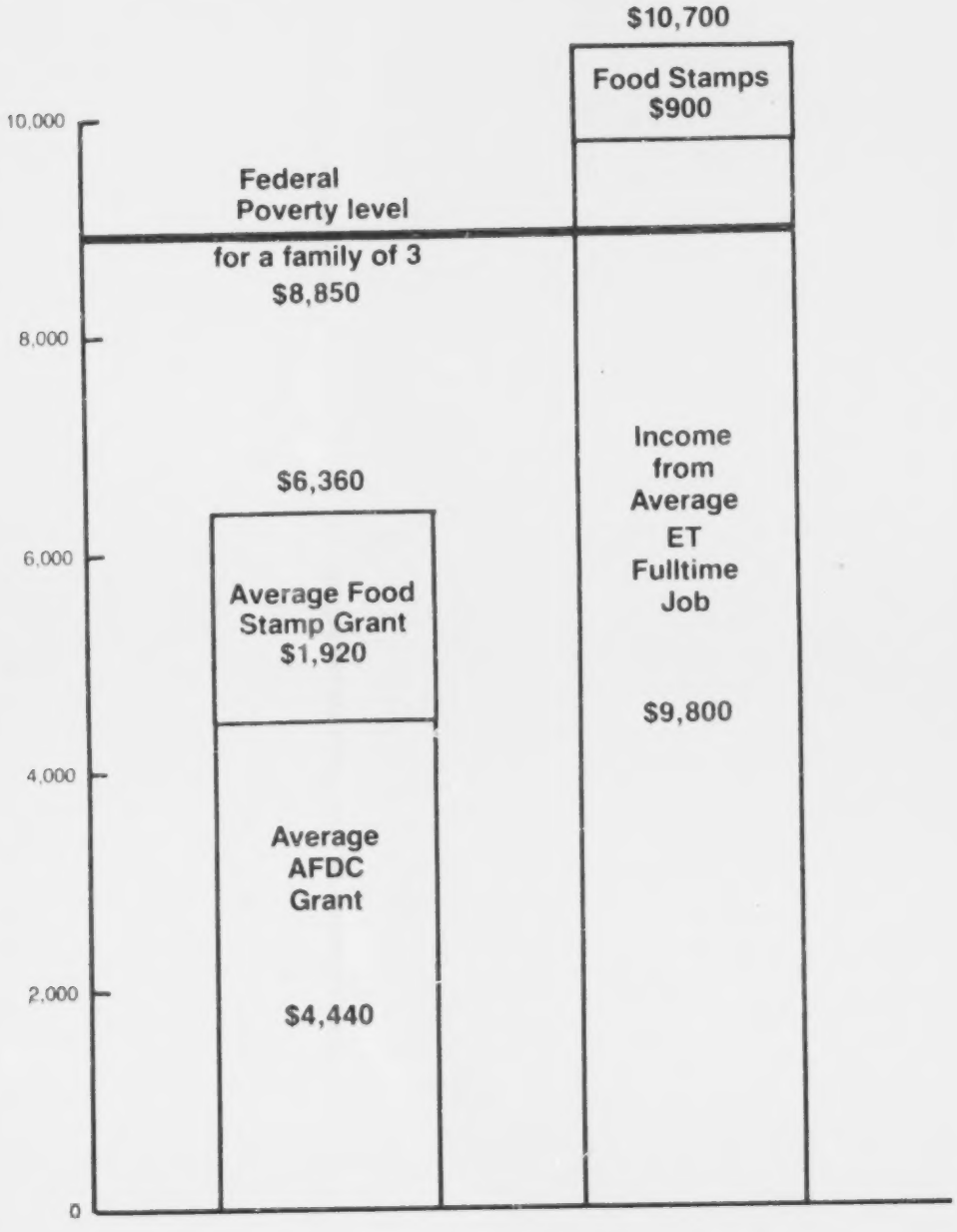


Chart 8 shows very importantly, I believe, why they are getting off of welfare. And that, very briefly, is that even in Massachusetts, where we rank among the top 10 States in the country in terms of the amount of welfare benefits we can give out, we only give out enough public assistance in the form of AFDC and food stamps to get people up to about 30 percent below the poverty level.

CHART 8

INCOME: WELFARE VS. WAGES, 1985



I do not know of any State in this country that gets people above that Federal poverty level.

By contrast, the jobs that these people are able to hold down—because we have been giving them education and training when they need it before they are placed into a low paying job—the jobs that these people have been getting, as chart 8 shows, put them above the poverty level. So we have a route out of poverty in Massachusetts, and it seems to me that is what we want to be doing if we are really going to whittle down the welfare rolls.

Chart 9 shows what the impact has been in Massachusetts on our AFDC caseload and, again, most of these people receive food stamps and the same thing has happened with our food stamp caseload—it is down dramatically.

CHART 9

EFFECT OF ET
ON THE AFDC CASELOAD

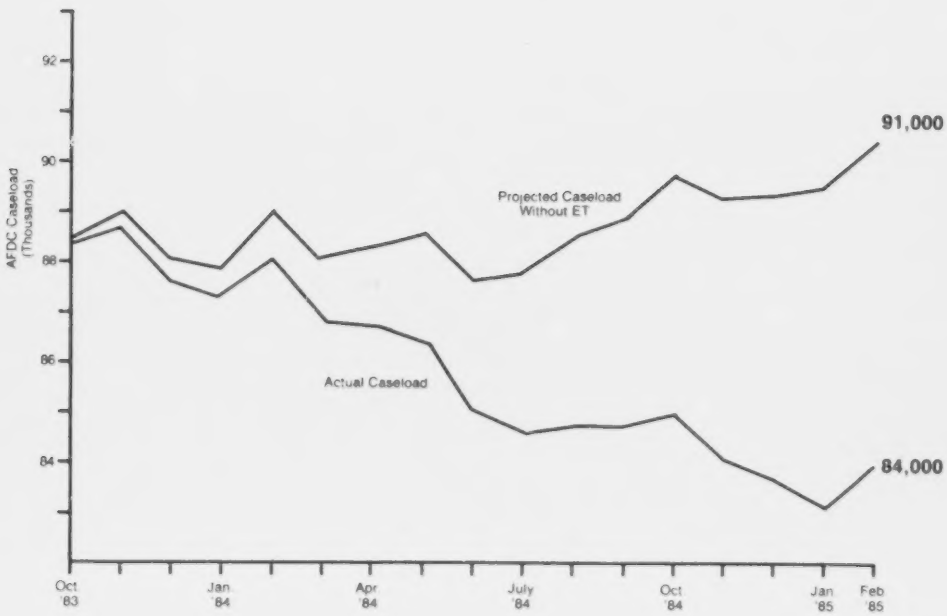
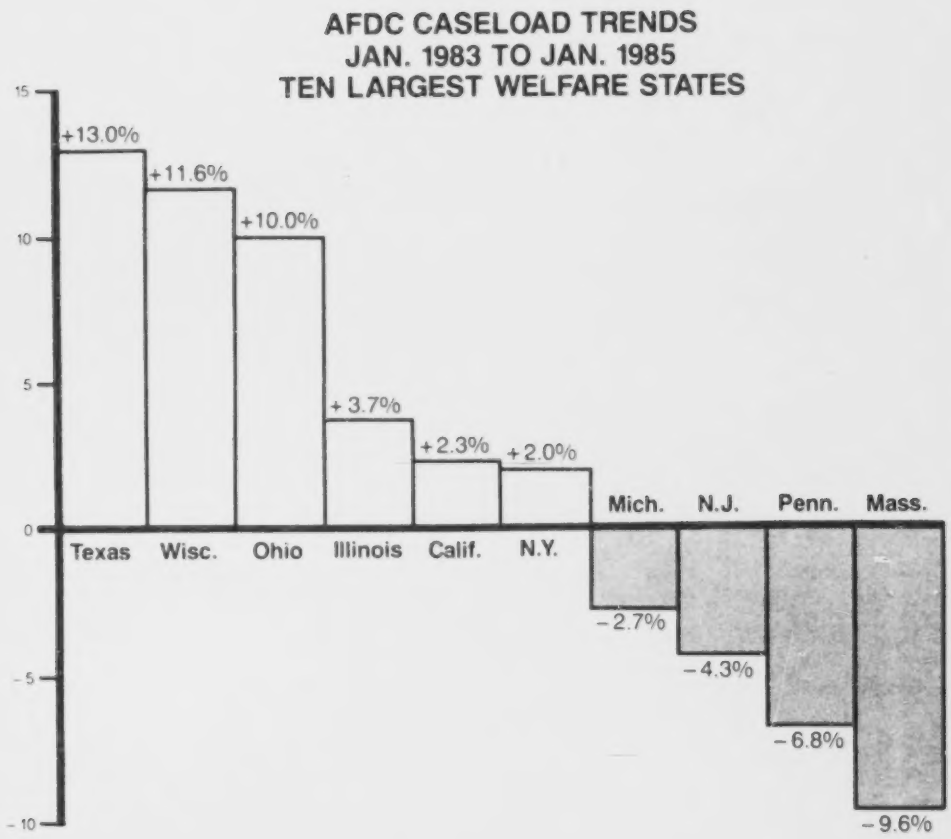


Chart 10 is some research that we did to look at the top 10 States in the country in terms of what happened during 1983 and 1984 to their welfare caseloads, and as you can see, we had the largest drop of any State. In fact, many States experienced an increase.

CHART 10



One of our questions was, is this simply because we had such a thriving economy in Massachusetts? We had a record number of jobs created last year of 160,000. So what we did on chart 11, the one that you have there in front of you, was also to ask those States how they performed with their economies, and as you can see, in every single case the economies improved in these States. The point this chart illustrates is that having a good economy is a necessary, but not sufficient, condition in getting the caseload down. You have got to have a program that gives people what they need in terms of support.

CHART 11

TEN LARGEST WELFARE STATES
AFDC CASELOAD AND UNEMPLOYMENT TRENDS
JANUARY, 1983 TO JANUARY, 1985

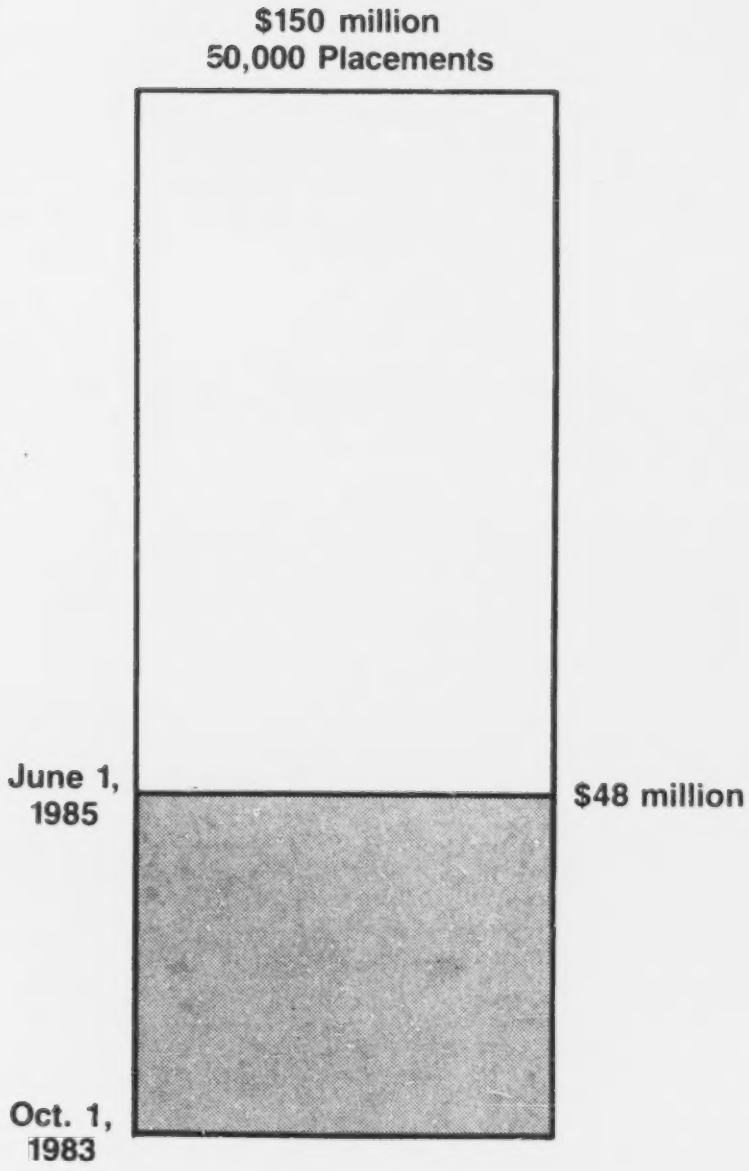
STATE	AFDC CASELOAD CHANGE	UNEMPLOYMENT RATE CHANGE (percentage points)
Texas	+ 13.0%	– 1.6
Wisconsin	+ 11.6%	– 5.6
Ohio	+ 10.0%	– 5.9
Illinois	+ 3.7%	– 3.7
California	+ 2.3%	– 3.7
New York	+ 2.0%	– 2.6
Michigan	– 2.7%	– 5.1
New Jersey	– 4.3%	– 2.3
Pennsylvania	– 6.8%	– 6.3
Massachusetts	– 9.6%	– 4.1

Source: Massachusetts Department of Public Welfare
Office of Research, Planning and Evaluation
and
Massachusetts Division of Employment Security
Office of Research, Planning and Evaluation

And the final chart, I think, is the pertinent one in terms of the savings that are available to taxpayers—about $30 million a year due to former recipients placed into jobs.

CHART 12

CUMULATIVE ET SAVINGS



Note: Estimated net savings per placement: $3,000.

Senator DOLE. Bob, let us hear from your State, and then we can have questions or discussion.

STATEMENT OF ROBERT FULTON, DIRECTOR OF OKLAHOMA DEPARTMENT OF HUMAN SERVICES

Mr. FULTON. Thank you, Mr. Chairman.[1]

I want to also commend you and your colleagues for preserving a very good Food Stamp Program through some very tough budgetary times.

I think in large measure we really have achieved in the Nation a degree of welfare reform as it was conceived 10 years ago or 15 years ago through the Food Stamp Program which basically reaches all types of households and does not depend on the categorical distinctions that are made in the AFDC Program and our other public assistance programs.

So I think we are here today to talk about ways to improve what is a very, very important accomplishment in the Nation in the guise of the Food Stamp Program.

I would certainly hope that as you work on the reauthorization that your major goal would be to preserve the program and improve it where it has weaknesses. I am sure that is the case.

Senator DOLE. That is the goal.

Mr. FULTON. I would also say that I think the States are quite realistic about the challege you face. We in Oklahoma at least are not expecting a substantial surge in benefits out of this reauthorization. Nice things are being talked about such as increase in the work expense deduction increasing the benefit as a percentage of the thrifty food plan, et cetera. I am not here really to argue for those changes today. We would like to see them, but we do not think that the basic effectiveness of the program is dependent on those changes. Whatever improvements you can make would be welcome.

I want to comment on two or three things that I think are important in your deliberations. One of them is the old favorite subject of quality control and the sanctions policy of the Federal Government. I think that issue has done a lot of poisoning of relationships between the Federal and State governments. I realize Congress has felt the need to put the pressure on the system to improve management.

Our own view is that the big gains from quality control come not from the fiscal sanction threat, but rather from—I suppose you could call it "public embarrassment"—that goes along with having a high error rate. This along with improved targeting of management improvements is what really pays off. Through the quality control system, which I strongly support, we pin down what the errors are, and find in a fairly methodical way the source of mistakes, and thereby we are able to target management efforts to improve those.

We in Oklahoma are committed to get to the 5-percent error goal. I think we will make it. We may not make it in quite the timetable that has been established. We have come from between

[1] See p. 89 for the prepared statement of Mr. Fulton.

11 and 12 percent about 2 years ago to the range of 7 to 8, and we are going lower. But we are convinced that taking money away on the basis of the coupon values supposedly lost through error would be a very, very bad move in terms of Federal and State relationships and would weaken the ability of States to help poor people.

In our case, anything that we pay back to the Federal Government in sanctions comes through direct reduction of the State funds portion of our agency's budget. In the climate in Oklahoma today, where we are scrambling to hold what we have in the way of State appropriations, it just is unrealistic to assume that we are going to make up for money lost to Federal sanctions through State appropriations. I strongly urge that you find some other way of keeping the pressure on, holding hearings by your subcommittees, sending the Secretary out to embarrass the Governors, whatever. The Federal Government is in a really untenable position of saying that the States have run the Food Stamp Program so poorly that you are going to take back what you have paid out mistakenly through our errors—despite the fact that the Federal Government itself created most of the complexity which makes the program hard to administer and increases errors. In Oklahoma we are very interested in Charles Atkins' account of job placement in Massachusetts. In Oklahoma, we have on the Food Stamp Program at any given time something in the range of 250,000 people. But in a year's time, last year at least, we had 540,000 Oklahomans at one time or another during the fiscal year who got benefits from food stamps. That is roughly one in seven of our State's people. Putting that in perspective, our AFDC rolls amount to about 2½ percent of our total population at any given time.

So the Food Stamp Program reaches with temporary help in most cases, fortunately, a very large percentage of our people.

Senator DOLE. Is there some average as to how long people are on food stamps in Oklahoma? Some are probably there year-round, but——

Mr. FULTON. Unfortunately, our data system does not presently permit us to calculate an overall average. A lot of recipients are on the rolls only for 1 month; many others are on for 3 or 4 months.

Senator DOLE. Probably while they are looking for work, I assume.

Mr. FULTON. Yes, that is right. We have had, of course, in the last 2 years as serious slump from the earlier oil boom in Oklahoma, and a lot of people who had been employed with good wages, suddenly found themselves in the food stamp line.

We had a big increase—in fact, in my testimony I have a table that shows that in 1981 the average monthly payments were totalling around $6 million; in 1985 it ran around $11 million a month.

I want to speak against the proposal—I know you have expressed some interest in it—to require a rebate to the Federal Government of sales taxes on food purchased with food stamps——

Senator DOLE. It is in our bill, in fact.

Mr. FULTON. Yes, I was aware of that.

In our State, we have an earmarked sales tax that is, I think, unique in the country. We have a dedicated sales tax that comes to the Department of Human Services. It has been in effect since 1936. It's a 2-percent dedicated sales tax. To the extent that tax has

to be turned over to the Federal Government, we would be taking money right out of the Department of Human Services' efforts to help low-income people.

Senator DOLE. How much would that be in Oklahoma?

Mr. FULTON. The State part would be about $4 million a year. That counts not only the 2-percent tax that is dedicated to Human Services, but another 1 percent that is now going into general revenues.

Then the local governments, of course, have additional taxes, and those vary all the way from 1 to 4 cents, and so it would be probably statewide something in the range of $6 million or so.

But I do not think that is a constructive proposal. There has been continuous debate in the State legislature about getting rid of the sales tax on food, and it would be a good move, in my judgment, to not have a sales tax on food.

Senator DOLE. This might speed it up.

Mr. FULTON. Well, the legislature would a real problem in restoring the lost revenues. They are not willing to tax some other things that are exempt from sales tax now. So we have a real dilemma in that if you proceed with that proposal it will simply take money away from the low-income people in Oklahoma.

Senator DOLE. It is an option. You know how tough the budget situation is around here, having worked with it for a few years.

Mr. FULTON. Yes, sir.

Well, I think one of the things that you can do, and I really encourage you to look seriously at the points that Mr. Atkins made, is to put more emphasis on the work area which is an unplowed, fertile field. We have had a really disgraceful kind of a situation in regard to the registration of food stamp recipients for work. After the relationships between the USDA and the employment service broke down and there were no agreements at the national level, we got instructions that required filling out the work registration form but then we were instructed by USDA to simply file it. So you had thousands and thousands of people coming through, filling out a work registration form, it went into the files and nothing was done to help them—or push them—to get jobs.

Senator DOLE. I guess in some cases where they are only on the rolls for 30 days or 60 days, by the time you got the paper filled out, they might be back at work.

Mr. FULTON. You can speed that up by putting pressure on work search by requiring scheduled interviews. You could of course ask the States to pay you for that with the 50-percent administrative match. But I think what John Bode said was pretty accurate on that. It involves tradeoff with a lot of things demanding attention from the States.

I would like to do it. I would like to put in a work program throughout our State for food stamp recipients. We would not depend on work fare, either, by the way. I agree with Charles Atkins on that. Work fare is not the best avenue for most of the food stamp recipients. I favor an option for the States to have work fare, but I do not favor mandated minimum participation.

We have work fare in our AFDC Program. It is reaching right now somewhere between 700 and 1,000 participants at any given time. It has been helpful for a substantial number of people. But it

is not the best answer even in AFDC for the bulk of the participants. We are finding directed job search, the scheduling of interviews, reporting back of the recipients on what they are doing in looking for jobs, opening doors with employers, and those sort of activities to be much more helpful.

We do now have a contract with USDA covering 10 of our counties and roughly 45 percent of our food stamp recipients. The early results of that are looking real good. But we do not have work fare in that plan.

Senator DOLE. Are you interested in the block grant system? Do you think that has any——

Mr. FULTON. Yes, sir. I am.

Senator DOLE. Well, what would you do in Oklahoma if you had it?

Mr. FULTON. If we had the optional block grant, first of all, before we applied we would want to see the fine print in the USDA's regulations.

Senator DOLE. Right. Good idea.

Mr. FULTON. But if it were available and in the spirit that it has been presented by Mr. Bode, we would——

Senator DOLE. It would not be Mr. Bode's fault. It would be some other——

Mr. FULTON. We would apply for it. We would cash out food stamps for the elderly, blind, and disabled. We would adopt a posture on work that was much more aggressive than we have now because the State would have a strong financial incentive then to put food stamp recipients to work. I think we have an incentive now, but it is more generalized. It relates to the State's overall economy and to making its people more productive and helping increase the output of goods and services. But we would have a very specific financial incentive if we were operating under the proposed block grant.

We would continue our simplified application demonstration, which USDA has approved but is now threatening to cut off. This involves integrating the AFDC and the food stamp eligibility rules. We would have a single, unified set of rules. We would try to do something about reconciling the household and family unit definitions for food stamps and AFDC where we have serious administrative headaches.

Senator DOLE. Do you have any fears that this may be the beginning of a shift of those costs to the States, or do you have enough confidence in the USDA? I am not talking about now, but say 10 years from now or 15 years from now. Everybody is always afraid to change. My own view is that to me, if it is optional, you can shift back and forth, and avoid that risk. There are some people who do not want to change anything in the Food Stamp Program because, that is the way it was when they understood it best. But are you concerned about somebody dumping the load on the States down the road?

Mr. FULTON. Mr. Chairman, I think the States have got to defend their interests and concerns, whatever the shape of the program is. The advocates who are concerned about the possibility that we would get into a situation where there was a tight cap on spending in the program or that the block grant would be used as a cost re-

duction mechanism, I understand their concern, but the Congress is going to have to stand by the present program as it is now designed and it will have to support the funding for block grants if the option block grant became some kind of a subterfuge for cutting benefits in the future, I think the same kind of debate would go on here in Congress as goes on when somebody proposes to cut food stamp benefits dramatically.

So I am not very worried about it. I think we have concern about how fast the Federal payments could be adjusted for economic change, Oklahoma has had recent experience with a sharp reduction in employment. But assuming satisfactory fine print is written relative to the adjustments for economic change and food prices, and assuming there are no other hookers thrown in as the law and the regulations emerge, we would be very interested in applying for the block grant. We think it would help our administration and that it would actually help us to provide more benefits to some of those that are most in need.

Senator DOLE. I think that would be our hope.

I want to ask Mr. Atkins a question. As I understand it, you are making recommendations that would increase spending. I think you are here at the wrong time. We are not going to increase spending. We are going to try to reduce spending. If we do not get a budget resolution, we are going to try to make certain that nothing goes through the Senate that increases spending. So if you want to increase certain areas—and I think we have to reprioritize all the time—do you have some ideas on how we can end up with no net cost, where we could offset good ideas on the spending side with some proposals on the savings side?

Mr. ATKINS. Yes, absolutely, Mr. Chairman. I am not here recommending an increase in spending.

We certainly understand the pressure that Congress is under to reduce the deficit. We want to help on that, and again, I think the kind of program that we are running in Massachusetts to get people off of public assistance is the primary way we think we can help reduce the costs of public assistance in Massachusetts and nationwide.

With respect to the block grant proposal, I do differ with my colleague from Oklahoma in that we in Massachusetts are opposed to that, in part because of the reason that you have cited a couple of times, the concern that it will result in a shift of cost to the States. We think there is a track record of that happening in the past. I think your point of having the option to move in and out is a good one. But we are also concerned about the geographical distinctions that may arise which are not there now in the Food Stamp Program. There are many problems with that Food Stamp Program, but one of the good things is at least it is consistent nationwide, and we think it is terribly important to people across the country who are dependent upon food stamps.

Senator DOLE. You have done good innovative things in Massachusetts, and we are trying to encourage that sort of action across the country. I think that is at least one feature of the optional block grant that I have some interest in. I am not suggesting it. I am not quite certain where I come down on the issue, but at least it seems to offer an opportunity for other States to follow what I

am certain Oklahoma may be doing now to some extent. Maybe you can do more of it. You have already indicated what you would do for the blind and the elderly. That might be something Massachusetts would have an interest in. But there ought to be some way to safeguard the program, so we are not eliminating it. We should at least have somebody experiment with the block grant to see if it works. You could put a time limit on it—1 year, 2 years, 3 years, whatever. It is only a 4-year extension?

It would be my hope we could protect those States that are concerned about this direction for the program—give other States an opportunity to experiment with it.

Mr. ATKINS. Mr. Chairman, that might be fine, but one of the things I would worry about is that some of the problems in the Food Stamp Program still need to be addressed for those States that might not take up the——

Senator DOLE. Oh, certainly. I understand that. We do not ignore those problems. But you are both doing the same thing in different States. I assume you meet from time to time and discuss problems or the strong points of the program.

Mr. FULTON. We try to share among States. The National Council of State Human Services administrators that we both belong to has a committee on food stamps, as well as for a number of other areas, and we do share a lot of information across State lines.

I want to say I have included in my statement some criticisms in the USDA and frequent regulation changes, and sometimes insensitivity to the States' problems. One of the good things that is happening recently is, I think for the first time at least during my connection with these programs, there is a really serious effort going on between USDA and HHS to try to integrate some of the policies and make the various programs work together better.

Mr. Chairman, could I add to what I said earlier about the optional block grant? Oklahoma would not cash out food stamps for the families. I know that option would be available to States. We would not do that for a couple of reasons. Maybe the most important is that, I do think the Food Stamp Program makes it more likely in a substantial number of cases that kids will eat reasonably adequately.

Senator DOLE. Notwithstanding the Puerto Rico study.

Mr. FULTON. Yes; I know that there are arguments about converting food stamps in a roundabout way into cash and being able to use them for other things, but I think still that in a lot of cases where the family is under a lot of economic pressures, the availability of stamps makes a big positive difference in the way the children eat.

With regard to the elderly, blind, and disabled, the reason we would cash that out is we have a very small benefit available to them because we have a State supplement to the Federal SSI Program. And it just does not make sense to give $10 or $13 in food stamps each month to a lot of elderly people. It is something of a hassle for them to get and use the stamps. A lot of them do not participate. We have close to 50 percent participation of the eligible elderly in our State. One of the things that would happen under the nutrition block grant is that we would simply roll the food stamp benefit into our SSI supplement and pay it out that

way. We would save a lot of administrative work, and I think increase benefits for some people that need them that are not now applying for food stamps.

Senator DOLE. Mr. Atkins, do you require any minimal job search in the Food Stamp Program?

Mr. ATKINS. No, we do not. We have the same problem that Bob mentioned, which is we have people go through the ridiculous exercise of filling out a piece of paper to register for work, and it piles up in our offices. We think that is terribly self-defeating, both for our recipients and———

Senator DOLE. That is even true of the people that are on the rolls year after year.

Mr. ATKINS. That is right. But again, what we have tried to do is to reach out to people who want to work, and what has happened in Massachusetts is the word has gotten around to people on public assistance that there is a route out of poverty. They basically cannot live in this country on the amount of benefits that public assistance provides.

Senator DOLE. All these people on public assistance, are they also all receiving food stamps?

Mr. ATKINS. The majority of them are, yes, sir.

Senator DOLE. Now, I understand this, Mr. Bode did not say this, but he thinks it would work. If I understand, John, you think that your suggestion for workfare would work with Mr. Atkins' innovative idea here?

Mr. BODE. Sir, one of the provisions of our community work experience program proposal is that performance under AFDC Program would be credited, and under our legislative proposals for the Food Stamp or AFDC Program, the activities Mr. Atkins has described would be counted as meeting the needs of our requirements for AFDC, and so, all of the AFDC and food stamp applicants in the system Mr Atkins has described would be counted as performing.

The other thing is it would significantly change one factor, and that is under Mr. Atkins' system, none of the food stamp recipients who are not also public assistance recipients in Massachusetts are in a program of that sort. And we feel that those food stamp recipients were not———

Senator DOLE. Is that a big number?

Mr. BODE. I certainly would not question Mr. Atkins' numbers. I think you said about 25 percent of your caseload?

Mr. ATKINS. There are about 8,000 people on the Massachusetts food stamp caseload who are not now eligible to participate in this program because we do not have funding from the Department of Agriculture. We would like to serve them. I suggest to Mr. Bode's staff that we include these NPA food stamp people in the Massachusetts "ET" program.

But I do have to disagree with what Mr. Bode said.

Senator DOLE. NPA is nonpublic assistance?

Mr. ATKINS. Yes, sorry. Nonpublic assistance.

Senator DOLE. We get all these letters.

Mr. ATKINS. It is difficult for us to keep up with sometimes. But Mr. Bode is not correct in his statement because, and I think this is an example of what Bob was talking about, we do not have consistency between what the Food Stamp Program says we should do

and what the AFDC Program through the Office of Family Assistance says we should do.

The Office of Family Assistance has proposed—in terms of this workfare program that they want to put in place, and which the Department of Agriculture would match—a program that would not allow people who are going through the education and training programs that I mentioned we are running in Massachusetts count towards "participation" as they have defined it. So we do have this problem that we would not even meet in Massachusetts this minimal level of 25 percent participation. It does not make a lot of sense to me just to force people to go through a job search activity when we find in Massachusetts that the majority of them are not able to hold down a job because they do not yet have education or training skills. Yet we are being told you cannot count education or classroom training as participation in a program like this, No. 1.

No. 2, as I said before, we found a major obstacle to people participating in job search and getting jobs and holding them was daycare. Again, you are talking about people who have young kids. Well, there are no funds to support that kind of program in the program which the administration has proposed. So I really do disagree that a program like this could work in what has been——

Senator DOLE. You probably cannot tell that today, but you have discussed this with the USDA?

Mr. ATKINS. I have not discussed it with the USDA. I have discussed it with the U.S. Department of Health and Human Services, and this is an example, as Bob mentioned, that we really do need to see some closer cooperation and understanding of the difference in the way the programs are running between the two departments

Mr. BODE. Senator, I appreciate your interest in the debate here. I thought I might——

Senator DOLE. If you never talk to each other, you can do it now.

Mr. ATKINS. We do talk together, but we have not talked about this issue.

Senator DOLE. No wonder we cannot get an arms control agreement. [Laughter.]

Mr. BODE. The Department of Health and Human Services proposal on work is different in some respects than the one we have advanced for food stamps, and that is because there is some basic differences between the recipients of the programs. That is why, strictly speaking, under the food stamp proposals, the various activities Mr. Atkins has described, would not be credited. But under the Department of Health and Human Services proposal they would be, and because by reference to that proposal, ours credits recognizes all the HHS counted activities. That is why we feel that Mr. Atkins' activities can continue, they would just have to be expanded to include the food stamp only recipients.

Senator DOLE. I think this is something you can discuss.

I wonder if we can just sort of wrap up at this point. My cochairman here, Senator Boschwitz, has agreed to chair this hearing for a while because I need to run off to another meeting. I will come back, though.

So if we could sort of summarize your basic thrust, Senator Boschwitz may have some questions for these few witnesses, who

will follow you two: Mr Richman, Mr. Weicher, and Mr. Greenstein.

Mr. FULTON. Mr. Chairman, if I could just add a couple of points to what I said before. My statement has some other material in it that I would hope that the staff and the members would read, but in regard to the jobs area, I like what you and Senator Boschwitz put into your bill. The notion of a block of money that is 100 percent funding for jobs effort would provide real encouragement to get the States into it. I think you are maybe a little parsimonious by trying to stick with the 50-percent rule on anything beyond whatever the front end 100 percent would provide. That is a pretty tough challenge to the States if we have to pay half the cost and all the benefits from job placement essentially goes to the Federal Government.

If you are doing job search with nonpublic assistance categories, everything you save is a Federal savings. I think you will save $5 for every $1 you allow the States to spend on job search, at a minimum.

Again, I would hope you would not put in a mandate on workfare. You do not have it in yours and Senator Boschwitz's bill. I think it is not appropriate, it would not be productive.

The other thing I want to ask is that if the subcommittee can help us at all to encourage the USDA to extend the simplified application demonstration that we have had, I would be most grateful. We have——

Senator DOLE. Did that expire or something?

Mr. FULTON. It runs out, really right now, at the end of June.

Senator DOLE. Do you understand that, John?

Mr. BODE. Yes.

Senator DOLE. We are going to extend it.

Mr. FULTON. That is all I need. We are showing a substantial administrative savings and more than offsetting a slight increase in the average coupon by integrating the AFDC and the food stamp eligibility rules and procedures, so we are very grateful for that.

I think, Mr. Chairman, that would be the extent of my remarks.

Mr. ATKINS. Mr. Chairman, you asked for some suggestions on ways to save money and help to reduce that deficit. I do have one that fits into again this notion of trying to get the two departments, the Department of Agriculture and the Department of Health and Human Services to work a little bit closer together on how they run their programs.

As I am sure you know, the Congress has approved a child support enforcement program that allows us, the States, as an incentive to get people on AFDC to participate in a child support program, to pay them up to $50 a month if they are participating in the child support enforcement program.

Unfortunately, the U.S. Department of Agriculture does not participate in that program the way the U.S. Department of Health and Human Services does. That money, that $50 a month that our clients receive, does not count as income in terms of their AFDC grant, but it does count as income for food stamps. So when we try and get people to participate in child support, they lose a third of that $50 a month in terms of food stamps. That does two things. One, it removes or really lessens the incentive for people to get off

of welfare by participating in the child support program; and two, as part of the problem that Bob mentioned before, of these error rates, we have a hard time trying to deal with this fluctuating income. One of the reasons the error rate is higher in the Food Stamp Program than it is in the AFDC Program, are these differences—and that costs us money. If we could have some consistency in the counting of child support payments in this regard, we would save some money.

Senator DOLE. I am advised by my staff that that would cost us $50 million. Is that $50 million a year?

Mr. ATKINS. Sometimes, Mr. Chairman, you have to spend some money to save some money. I believe that we might lose the income of $50 million that the U.S. Department of Agriculture is getting by reducing food stamps. But I maintain we would be able to reduce the number of people on public assistance if we could get those absent fathers to support their families instead of the Government. I think that is what that child support program is about.

Senator DOLE. That was our intent when I was chairman of the Finance Committee which has jurisdiction over that program.

Mr. ATKINS. I presume that is just a loss of revenue.

Senator DOLE. We appreciate it very much, and I would hope that your association, do you meet regularly?

Mr. FULTON. Yes, sir, once a quarter.

Senator DOLE. This area is probably something that takes a lot of your time.

Do you have any problems with WIC?

Mr. FULTON. We do not administer WIC.

Senator DOLE. You do not administer WIC.

Mr. FULTON. It is done by the health department. It is a very good program in Oklahoma.

Mr. ATKINS. The same thing is true in Massachusetts.

Senator DOLE. What is your error rate in the Food Stamp Program?

Mr. ATKINS. Our error is down around 6 percent. It is much like Bob described in Oklahoma, down from double digit to a little bit above 5 percent, but its terribly difficult to achieve a 5-percent level the way we have got these——

Senator DOLE. It is easier to get to 5 than to get to 3 percent, though, is it not?

Mr. ATKINS. Oh, yes. [Laughter.]

Senator DOLE. Do you have any questions, Senator Boschwitz?

Senator BOSCHWITZ. I will ask the witness to go over this plan just briefly so I can understand it. I came in a little bit late, so I do not——

Senator DOLE. He did that for the record, but obviously if you would like to go through it again that's OK. It seemed to be a very good plan. Those are very objective numbers in there, right?

Mr. ATKINS. Yes, sir.

Senator DOLE. Not the kind we put out here. [Laughter.]

Mr. ATKINS. It is Government at its best.

Senator BOSCHWITZ. My friends in Massachusetts tell me they cannot hire.

Mr. ATKINS. That is one of the solutions that we have come up with, and it actually is a good question which I did not address.

Senator BOSCHWITZ. There is very low unemployment in Massachusetts.

Mr. ATKINS. We have an unemployment rate—down to 4 percent—but I think, as you know, that people who are on welfare, Senator, are not counted in the unemployment statistics. When the Census Bureau calls up and asks if you are actively looking for work, if you are on public assistance, by definition you are not.

We have here a pool of people who, if we act responsibly and motivate them to work, and train them, are going to satisfy business. What we are finding in Massachusetts is because businesses are having a hard time finding people out there in the work force to go to work, that by taking these people and providing them some support through day care and training, they turn out to be terribly well motivated workers. By and large this is because they have young children to support. I was telling Senator Dole before, we cannot provide them enough money to live on through public assistance. So they need those jobs to support their families. And we are told, again, by employers that these folks turn out to be among their best motivated workers.

Senator BOSCHWITZ. Mr. Chairman, I do not mean to go over it again.

Senator DOLE. I think the point was made that you have about the lowest unemployment rate in the Nation.

Mr. ATKINS. Close to it, if not the lowest.

Senator DOLE. Maybe it is because of this program.

I will be back.

Senator BOSCHWITZ. Would you briefly describe that program for my own edification?

Mr. ATKINS. Senator, chart 1, which I believe is the next page after that one, that is a summary of the program. Just to take you briefly through the charts again, the first page, chart 1, states the goals of this program in Massachusetts which is to place 50,000 people into jobs. We believe it will take us 5 years to do that. The program is a little bit over a year-and-a-half old, and we have actually placed 16,000 people to date.

We believe those 50,000 placements will save, conservatively estimated, $150 million over the course of the 5 years.

Chart 2 is the design of the program as we have put it together in Massachusetts, and as we would like to keep it because it does seem to be working quite well. Basically, people who are on public assistance in Massachusetts can go to any of our 60 local welfare offices across the State to register for this program. They then, as shown in the box in chart 2 which says appraisal/employment plan, are provided—if they wish to participate in this program if they need it—day care and a minimal amount of money for transportation. We found that that is a major obstacle, as I said before, for many people on public assistance because they are, by and large, women with young children.

In Massachusetts, we then give people four options, which are shown in the middle boxes in the middle of that chart. I will not go through them in detail, except to say that the bulk of our people need and want education and training. That is our concern—that we will not be able to provide those services if what the administration has proposed is adopted. We are using a substantial amount

of State funds to pay for education and training, and that would not count toward the minimum participation levels that the administration has proposed for their work program.

Chart 3 shows the choices, percentagewise, that people have chosen since the program began. Forty-five percent of the people have chosen, as this chart shows, to go directly into jobs. That happens to be the exact percentage of people who have a high school education who are on public assistance in Massachusetts. I do not think we have done a perfect job of matching up those folks, but the main point here is that the bulk of our people need further education and training if they are going to hold down a job that will pay enough for them to get off of welfare and remain off.

Chart 4 just shows over time how the program has progressed. As you can see, we are substantially above even the goals we initially set for ourselves. We think the reason that the program has taken off the way it has is as shown by chart No. 6, which describes the number of people who have participated in the program and the number that have entered employment at least in the first year-and-a-half. What is shown in the bottom of that chart is quite important, that 85 percent of the people who have participated or entered——

Senator BOSCHWITZ. What is DES?

Mr. ATKINS. DES is our Division of Employment Security, our Employment Security Agency in Massachusetts.

And what this chart shows is that people are getting wages averaging $5 an hour, which is, we think, the key to the success of the program. That works out to, as you will see from the subsequent chart, almost $10,000 a year, substantially more than they can get on public assistance and above the poverty level for most families on public assistance. That is why the program seems to be working the way it is.

Chart 6 shows that 85 percent of the people who are placed into jobs are staying in jobs, which tells us that they want those jobs, that they are holding them down. This is in sharp contrast to the results of a work fare program we ran a number of years ago in Massachusetts which forced people to go through a job search. That program had a retention rate of only 37 percent.

Chart 7 basically shows that almost 20 percent of the people participating in the program do not have to do so by Federal law. They are exempt; they have children under the age of 6, but they are participating in this program, we think, because they want to work, they want to get off of welfare, it is important to them and their families.

Chart 8 tells the story financially why that is so. The point I was making before, that we have a route out of poverty in Massachusetts with people who are placed into jobs in this program earning more money, substantially more money, than they can get on public assistance and enough money to get them above the poverty level.

Chart 9 just shows what has happened to the caseload in Massachusetts—it has been going down.

Senator BOSCHWITZ. The caseload in what?

Mr. ATKINS. The caseload in our AFDC Program and the same thing has been happening with our total food stamp caseload, it has been going down.

Senator BOSCHWITZ. Is it family?

Mr. ATKINS. Yes; those are families.

Chart 10 shows how the drop in the caseload compares to the 10 largest——

Senator BOSCHWITZ. You think that is related to what you have done, or is that related to the unemployment picture in general?

Mr. ATKINS. We think it is related to both as this, the next chart, shows.

Chart 10 shows what has happened in the 10 largest States in the country in terms of welfare caseloads. And as you can see, six of them had increases in their welfare caseload, four had decreases; we had the sharpest decrease.

Senator BOSCHWITZ. Yes, but how is that related to unemployment?

Mr. ATKINS. That is shown by chart 11, Senator, which shows that in each of these 10 States, there is a substantial improvement in their economy. We think that you have got to have an improving economy, you have got to have job creation, obviously, to move people off of public assistance into jobs. But you need to have the flexibility of having a program like we have in Massachusetts in order to make this program work. In other words, an improving economy is a necessary but it is not a sufficient condition to get the caseload down. You have got to have both.

Chart 12 shows the amount of money that we saved the taxpayers—50 percent Federal money, 50 percent State money—since the program began, against the overall 5-year goal.

Senator BOSCHWITZ. How did Mr. Fulton respond to the program?

Mr. Fulton. Mr. Chairman, we have a somewhat different approach, but a very aggressive and somewhat older program for placing AFDC recipients in jobs. We have on AFDC a caseload of about 28,000 cases in Oklahoma. This year our goal is to place 7,500 AFDC recipients in jobs. We are coming to the end of our State fiscal year and we are about ready to tally up the totals. We are going to come very close to meeting that goal. The previous year we placed 6,000, the year before that we placed 4,000. So we have had a dramatic improvement in the placement rates in our AFDC Program.

I want to say that we—I do not know if you were here when I mentioned earlier—that we do use a workfare approach as one element in our program, but we have a multifaceted approach which depends most fundamentally on the same kind of thing that Chuck is describing relative to job search. It consists of our local welfare offices having staff members who do constant contact work with employers and who also work with individual recipients and with groups of recipients, counseling them on how to do job search, and helping them open doors with employers.

I would also say that we take a somewhat more mandatory approach than Massachusetts takes. We have had a waiver now for 3 years of the age of a child requirement in AFDC. Therefore, any AFDC parent is subject to a work requirement. We have not had to sanction very many people, but we think having all able-bodied

AFDC parents subject to mandatory work requirements, even when the youngest child is under age 6, has somewhat cleared the air relative to public understanding of what is expected of AFDC recipients. We are very interested in continuing to have that as a part of our program. It has not proven controversial. We do have day care readily available as a matter of entitlement. So if a woman can get a job and child care is needed, we do provide it. Now, if it is in a remote area or there is just no provider of child care, we try to get a family day care home. If that is not possible, then we do exempt the woman from the work requirement.

We have saved a lot of money in food stamps through our success in AFDC work search. We have only 10 of our counties out of 77 now participating in our food stamp, nonpublic assistance job search effort. The USDA has not been able to provide sufficient money to cover more than 10 of our counties. And, as I mentioned earlier, given our own financial problems, have not found it possible to put up State money to pay the 50 percent match that would have to go in to pay for job search for the food stamp recipients in other counties.

I am convinced we can reduce the food stamp rolls by aggressive effort on the employment front and I think that we are learning in both Massachusetts and Oklahoma how to do that with AFDC recipients. We can, I believe, apply that experience over to the nonpublic food assistance food stamp category and have equivalent effects.

Senator BOSCHWITZ. The program that you outlined here, applies principally to AFDC. What impact has it had on the 16,000 people on food stamps? Have they also gone off the food stamp rolls in some instances?

Mr. ATKINS. In Massachusetts, about 75 percent of the people on AFDC are receiving food stamps, so that the decrease in the AFDC rolls has been the major reason why the food stamp rolls have decreased. But as Bob was saying we would like to extend this program to include the nonpublic assistance food stamp cases and we think that there is a potential of 7,000 or 8,000 people who are receiving food stamps in Massachusetts who are not now working who you could get to work.

What we do need is some funding from the U.S. Department of Agriculture, just as we get funding from the U.S. Department of Health and Human Services through our WIN Program to help us to do this.

Senator BOSCHWITZ. Mr. Bode, did you make any comment about this program that is being conducted in Massachusetts?

Mr. BODE. I would only add, Senator, that program can be perfomed under the administration's legislative proposals. Our legislative proposals would affect what is being done in Massachusetts, by requiring them to extend their efforts to also include in work fare those persons receiving food stamps but not receiving other public assistance.

The nonpublic assistance food stamp recipients in Massachusetts are not in this work program. We believe that they should be and our proposal would have them in a work fare, or community work experience type activity.

Mr. ATKINS. I would agree with Mr. Bode, we would very much like to see the nonpublic assistance food stamp people participate in this program but someone is going to have to pay the costs that would be entailed by having them participate.

And again, the U.S. Department of Health and Human Services, through the WIN Program is providing $8 million a year for Massachusetts to run this program and it would be nice if we could get some amount of money from the U.S. Department of Agriculture to implement what Mr. Bode suggests, but it certainly would be a good idea.

Senator BOSCHWITZ. We proceed now to Mr. Richman.

STATEMENT OF STEPHEN RICHMAN, CHAIRMAN OF THE EDUCATION AND HUMAN RESOURCES COMMITTEE OF THE NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Mr. RICHMAN. Mr. Chairman, my name is Stephen Richman, I am the chairman of the education and human resources committee of the National Association of State Budget Officers.[1]

I want to thank you on behalf of our association for providing us this opportunity to contribute to your deliberations.

My comments today will emphasize the following objectives: Safeguarding the right of all people to adequate and nutritious food, assuring continued full Federal financial participation, and maintaining program integrity and preserving administrative equity.

NASBO recognizes that the growth of Federal spending must be curtailed if the deficit is to be reduced. However, deficit reduction should not be an excuse for the Federal Government to abandon its historical responsibility for maintaining essential income support services for the needy.

Accordingly, NASBO strongly supports full funding for means tested entitlement programs, including food stamps. The administration contends that its proposed reform efforts will increase program integrity and decrease fraud and errors. However, its proposals will create obstacles to program participation and thereby, undermine the program's basic objective—to alleviate hunger and prevent malnutrition.

In addition, further human services program reductions are likely to result from imposed fiscal sanctions upon States based upon arbitrary quality control error rate standards. These reductions would occur at the same time that effective State management is jeopardized through a proposed cap on administrative costs.

For most States, the 1985 fiscal year, shows a moderate improvement in State finances. However, this improvement follows several years of extensive budget cutting, revenue raising, deferred expenditures, and other austerity measures adopted in response to the 1982-83 recession. In fact, during the 1982-83 period, 44 States increased taxes and 43 States decreased their budgets. While all of these austerity measures were necessary to enable States to achieve constitutionally required budget balance, it should be noted

[1] See p. 104 for the prepared statement of Mr. Richman.

that most of these actions provided nonrecurring relief. Although the States projected yearend balance of $4.6 billion in 1985, projected to decrease to $4.2 billion in 1986, represents a welcome increase over the historically low $2 billion in the 1983 level, it is still less than one-half of the general fund balances held prior to the recession.

While the economic recovery has enabled many States to improve their financial condition, pressure to restore budget cuts, fund selected program initiatives, and repeal recent tax increases will test the ability of States to maintain reasonable yearend balances as a buffer against future economic uncertainty.

Therefore, any further shift of Federal responsibilities for entitlement programs from the Federal to State governments, whether in the form of caps, sanctions, or benefit reductions, will likely result in reduced services to the poor.

Within this framework, I would now like to highlight some specific concerns.

The first is with the quality control process as it operates not only in food stamps but in all three income support programs.

Fundamental reform of quality control must be enacted quickly, hopefully in this session of the Congress. Initially, quality control was a management tool designed to lower the rate of incorrect payments. It has now evolved into a vehicle to reduce the Federal matching share by fiscally sanctioning States failing to meet on unreasonable Federal error rate standards.

Mr. Chairman, I can tell you that the Federal tolerance levels are generally unattainable. The quality control process is flawed. Only one State has been able to——

Senator BOSCHWITZ. Did you say that also when they were lowered to the present levels from the previous levels?

Mr. RICHMAN. The standards?

Senator BOSCHWITZ. Yes.

Mr. RICHMAN. I think that this is a situation that has evolved over time. In 1982 we were concerned when the tolerance levels came down. We are talking about AFDC now?

Senator BOSCHWITZ. Sure.

Mr. RICHMAN. Came down to 3 percent. Now it has become very evident that States simply cannot live within those tolerance levels. Performance within those tolerance levels is unattainable.

Senator BOSCHWITZ. What has been the history in New York?

Have you been able to reduce the levels there?

Mr. RICHMAN. We brought them down significantly and I might add that we have done so over a period of time when no sanctions have been collected. We are down in the AFDC Program now, in approximately the 7-percent range, and that is from a high of probably about double that.

Senator BOSCHWITZ. Did you testify when we initially asked you to bring down the error rate? Did you also testify that we would somehow be unjust to the poor and so forth?

Mr. RICHMAN. No.

I do not think that we have a problem with bringing down the error rate, certainly. The position that NASBO takes, obviously, is that we should not spend any dollars that we do not have to spend.

I think the issue is the way in which the quality control system is now constructed in terms of measuring error rates. Our position is that if the system was equitable, and measured error rates on a fair basis, taking into account State performance, demographic factors, circumstances beyond the control of the State, that you would find that many of the States would be in compliance.

I think the fact that the system is unfair, and States could not comply with it, highlights the current problem.

Senator BOSCHWITZ. Well, you know there is this optional block grant approach, that will enable the States to get out from underneath the current error rates saction system. How would you like to comment?

Mr. RICHMAN. The thing that is unclear right now, in terms of the block grant proposal is how the future audit actions may impact States.

I think that States that are currently talking about opting for that optional block grant, are not certain as to how they will be impacted under future audit activities, which may, in fact, be as stringent as the current quality control system.

Senator BOSCHWITZ. One would think that this would not be the case. The whole basis of the block grant is not to be as stringent on these kind of things.

You may continue.

Mr. RICHMAN. As I was saying, only one State has been able to meet and maintain the 3 percent AFDC target for 2 years in a row. Moreover, even though there is no empirical data to support the contention that every State would be able to achieve the same error rate, current quality control policies fail to take into account the differences among the States, including demographic variances, program complexities, size of caseload and scope of coverage.

Senator BOSCHWITZ. What does that mean, demographic?

Mr. RICHMAN. Basically, demographic means the population density, for example, caseload characteristics, composition of caseload, urbanization.

Senator BOSCHWITZ. Composition of caseload, what does that mean?

Mr. RICHMAN. For example, in families who have earned income it is more difficult to determine eligibility. Well, more the error rates, let me go back and say that more of the error rates seem to show up in families that have earned or unearned income.

Senator BOSCHWITZ. You have people with unearned income on AFDC?

Mr. RICHMAN. Sure, you have people with unearned income on AFDC and food stamps, more so on food stamps than you do on AFDC. That is my understanding.

States, for instance, that operate UP programs on AFDC find higher error rates.

Senator BOSCHWITZ. What is UP?

Mr. RICHMAN. Unemployed parent programs.

Because client caused errors are counted, States are being held fiscally liable for errors which are beyond the control of even the most responsible administrative agency. Moreover, the Federal Government does not make final error rate results available on a

timely basis. They are received a minimum of 2 years after State audits are performed—too late for effective use.

It is ironic that Federal agencies are planning to finally collect sanctions at a time when State error rates are at an all time low, having been reduced by more than one half over the past 10 years. This progress has been made despite continuously changing Federal program requirements which contribute heavily to errors.

The Food Stamp Program, for example, has been significantly amended at least six times since 1977. Not surprisingly, States have been most effective at reducing error rates during periods of minimal change.

In fact, error rates have decreased 20 percent since 1981, a period in which fewer program changes have occurred.

We suggest that waivers of sanctions be granted during periods of program change to accommodate necessary initial implementation adjustments. The magnitude of potential sanctions is alarming. The administration's 1986 budget assumes a food stamp funding reduction of $140 million due to the imposition of sanctions for all prior Federal fiscal years.

Prospectively on an annual basis, sanctions could approximately double if even more stringent quality control measures are instituted, such as levying sanctions against program costs, as has been proposed.

If sanctions against program costs are levied, it will severely diminish the States' capacity to effectively administer and maintain existing program levels.

Alternatively, NASBO strongly supports computing sanctions based on a direct correlation of administrative costs, such as proposed in H.R. 2621, recently introduced by Representative Jeffords.

Furthermore, when you consider the size of estimated sanctions in all income support programs, which could exceed $2 billion by 1990, it is clear that quality control as currently defined, is little more than a means for significantly reducing Federal support for means-tested poverty programs.

Such a dramatic shift of funding responsibility threatens to undermine the State/Federal partnership and jeopardizes the very entitlement nature of these programs. We would hope that during this session of Congress, reform of the quality control process is adopted so that States are not subject to arbitrary fiscal sanctions. Such a revamped system should include consistency among the three income support programs, fiscal incentives to States to encourage error rate reduction, and improved operations to reduce inefficiencies, a system for producing error rates that is methodologically sound, and reasonable performance requirements based on demonstrated achievement, demographics, and program characteristics.

Many of these provisions, as well, are included in each H.R. 2621. We are hopeful that similar legislation will be introduced in the Senate and we are very pleased to learn that you, Senator Boschwitz, are currently working on such a bill.

Mr. Chairman, I have with me a paper on quality control that NASBO has developed which addresses these issues. I believe that

you have that, and I would appreciate it, if it could be entered into the committee's record.[1]

Senator BOSCHWITZ. So ordered.

Mr. RICHMAN. A second concern relates to our strong opposition to fund the Food Stamp Program as a part of a block grant, such as proposed in S. 616 and S. 969. By blocking nutrition assistance programs, including food stamps, entitlement status is threatened.

The Food Stamp Program is the only national income security program that establishes a uniform national benefit. Block granting would result in benefit inequities from State to State as the larger Federal role is reduced. Governors support maintaining the current Federal role, as States are unable to control the economic conditions leading to program dependency.

Those States that experience the greatest need for income support programs are often the States with the least resources to meet those needs. Food stamp entitlement status assures that Federal resources are immediately available and responsive to caseload fluctuations.

The unequal distribution of poverty and income among the States makes the continued Federal role vital to the preservation of the social safety net. While some block grant proposals, including the administration's, allow for annual adjustments in funding levels, such adjustments fall short of States' current protection. These proposed adjustments would not be responsive to caseload increases due to an increase in the poverty population, or economic downturns which may occur during the year. In addition, if households which are potentially eligible, but not yet participating, find their way on to the rolls, estimated at 14 million nationwide, proposed funding levels tied to 1984 appropriations would be severely inadequate. Proposed adjustments tied to the unemployment rate would not account for demographic changes, cost of living increases, number of discouraged workers, or other factors recognized as not being counted. At the same time, these economic conditions would undoubtedly produce a reduction in State resources causing States to choose between not providing benefits to all of their needy citizens, cutting other programs or raising taxes during an economic downturn.

As past experience with other block grants such as community services, social services, and the food stamp nutrition block grant in Puerto Rico has shown us, the likelihood that Federal assistance will be capped, and/or reduced, is increased when a program is blocked.

Given our large Federal deficit, measures designed to limit Federal costs, including reducing or capping any food stamp block grants are almost certain. Block grant proponents contend that States are being offered greater flexibility and administrative simplicity.

States can already, however, achieve greater simplicity and flexibility as well as target benefits to those most in need, within the existing administrative framework without eliminating the program's entitlement status. Block granting only gives States the

[1] See p. 111 for the position paper on quality control submitted by Mr. Richman.

added flexibility to choose between providing benefits above available Federal funding at State cost, or not to serve all those in need. That is not a choice that the States can afford to, or should have to make.

Block grant proposal sponsors and members of the administration are misleading States——

Senator BOSCHWITZ. There is some particular obligation that the Federal Government has that the States do not?

Mr. RICHMAN. We perceive hunger to be a national problem that needs to be dealt with uniformly on a national basis.

Analogous, for example, to the Medicare Program, which is uniform on a national basis, or to the Social Security Program, which is also uniform, on a national basis. We see the Food Stamp Program as fundamentally a national concern that needs to be administered uniformly.

Senator BOSCHWITZ. Well, I think that that type of logic could be applied to just about anything. If you want to expand that logic, the Federal Government could pay for more of your programs, but we are not in a position to do so.

How do you suggest, we deal with the Federal deficit? The Federal deficit is a national problem—it keeps interest rates up, slows economic growth, and has some impact on all of these programs that we have been discussing this morning.

Many of your suggestions increase costs. I hope that you are going to get to the policy of how we can decrease costs and save money to offset some of the increases you are talking about. This is a rather long statement.

Mr. RICHMAN. I am not proposing to increase benefits under the Food Stamp Program.

Senator BOSCHWITZ. I am saying that you are not proposing any way to deal with the deficit problem.

Mr. RICHMAN. We would argue that the Food Stamp Program is not the place to deal with the deficit problem.

Senator BOSCHWITZ. I see.

Mr. RICHMAN. At least in terms of current benefits, and maintaining the current social safety net.

Senator BOSCHWITZ. Do you have some ideas of where we should deal with it? The Food Stamp Program is a relatively large program. If we are to exempt the Food Stamp Program, we should also exempt interest since we really cannot deal with that? Should we exempt Social Security as well?

Mr. RICHMAN. I am not prepared to talk about——

Senator BOSCHWITZ. Oh, but I would like to talk about it, so I ask you, are you prepared to exempt Social Security as well?

Mr. RICHMAN. I do not have an answer for that.

Senator BOSCHWITZ. How about Medicare?

Mr. RICHMAN. I do not see Medicare as the subject.

Senator BOSCHWITZ. Well, we have talked about 22 percent of the Federal budget being in Social Security; about 8 percent of it being in Medicare; 14 percent of it being in interest; and 1 to 1.5 of it being in food stamps; 1 percent perhaps, so that now we are up to 45 percent of the budget.

You have to tell me what to do. Where would you like us to balance the budget? I suggest that maybe raising taxes, because that is something——

Mr. RICHMAN. Well——

Senator BOSCHWITZ. Well, earlier you seem to have suggested you raise taxes to the States.

Mr. RICHMAN. We have had to do that in order to meet the demands on services in many of the States that suffered from the recession.

Those were temporary tax increases which obviously we would like to be able to repeal. In some States we are repealing them and in many States we have not; where they are still suffering the effects of the recession.

Block grant proposal sponsors and members of the administration——

Senator BOSCHWITZ. How long is your testimony?

Mr. RICHMAN. Well, if you would like we can——

Senator BOSCHWITZ. I thought that this was an abbreviation of your testimony?

Mr. RICHMAN. Well, I wanted to hit at length the block grant and the quality control features, but we can stop it after that, if you like?

Senator BOSCHWITZ. No, no.

Mr. RICHMAN. The block grant proposal sponsors and members of the administration are misleading States into believing that a block grant will eliminate future fiscal sanctions.

Although error rate sanctions would be abandoned for years after 1985, if a State choose block grant, as you mentioned before, Mr. Chairman, collection for prior year sanctions is still intended, and Federal block grant audits could result in State fiscal liabilities that equal or exceed current error rate sanction amounts for future years.

To reiterate, the continuation of food stamps as an entitlement program is vital to preserving the social safety net.

The third area of concern is the administration's proposal to finance food stamp administrative costs by limiting States' funding in 1986 to the 1985 level, and by tying future increases to the GNP deflator. We strongly oppose the imposition of this cap as it would not accommodate normal program growth and will effectively shift a disproportionate share of administrative costs to the States, who in turn, would be forced, as funding stagnates and costs rise, to reduce their capacity to deliver quality services to recipients. In addition, a fixed cost administrative grant is inconsistent with current Federal requirements to achieve lower error rates in the Food Stamp Program.

Reduction in errors cannot be achieved without additional investments in program administration. Tying costs for a public assistance program to the GNP deflator is also illogical as there would be no assurance that program funding would increase during economic downturns, when more people are in need of services.

Such a change would be especially devastating for States where local economies are affected by cyclical fluctuations that increase recipients, and in turn, administrative costs. Finally, the cap would also eliminate incentive funding for computerization and other

measures aimed at program improvement which often require an initial investment prior to realizing any savings.

Senator BOSCHWITZ. But what do you propose?

If you oppose all of these things, what do you suggest instead.

Mr. RICHMAN. As a mechanism to do what?

Senator BOSCHWITZ. You oppose all of the methods of trying to control administrative costs. What are you suggesting instead? Should administrative costs just rise as necessary?

Mr. RICHMAN. No; I think that administrative costs have not risen as significantly in recent years, and I think that there is ample incentive that currently exists at the State level to keep those costs down, while at the same time, maintaining effective program administration.

Some of the incentive funding, for example, that we have received in the computerization area has been extremely successful in enabling us to improve our administration. States are currently exploring things such as alternate issuance mechanisms that would cut a lot of the red tape out of food stamp distribution and streamline administration.

I think though, for the States, the key is that we are out there administering those programs; we are on the line, when there is a problem in program administration, it is the States and the localities that are called to task. I think that provides ample incentive for the States to maintain effective administration and certainly to keep error rates down.

Mr. Chairman, you are interested in expediting this testimony.

Senator BOSCHWITZ. Yes, I am.

Mr. RICHMAN. Would you like for me to end it here? These are the primary areas, but there are some others.

Senator BOSCHWITZ. What are the other areas that you were going to stress?

Mr. RICHMAN. Well, I was going to briefly talk about work requirements and shelter benefits, and compatability with AFDC and SSI, but I think, if you would like, we can cut it off here.

Senator BOSCHWITZ. I think that we will end it and enter the entire statement. We have entered your entire position paper into the record, and I presume that everything is all covered there, is that correct?

Mr. RICHMAN. Yes.

Senator BOSCHWITZ. OK, in that case, we will terminate your testimony at this point, and then we will bring forward Mr. Weicher and Mr. Greenstein.

STATEMENT OF JOHN C. WEICHER, F.K. WEYERHAEUSER SCHOLAR IN PUBLIC POLICY RESEARCH, AMERICAN ENTERPRISE INSTITUTE

Mr. WEICHER. I have a shorter version, also, but I will tell you as I am skipping things.[1]

Senator BOSCHWITZ. OK, do that.

Mr. WEICHER. I am pleased to have the opportunity to appear before you this morning. I have been asked to discuss food stamps

[1] See p. 119 for the prepared statement of Mr. Weicher.

in the broader context of low-income-benefit programs, as part of the safety net, rather than to discuss the program, itself, in detail, or to discuss the specific changes that you are considering at this point.

I want to start by describing the evolution of the safety net, particularly during the last 5 years, and talk about the changes both in the budget outlays for these programs and the structures of the programs, and conclude with an assessment of the current state of the safety net—has it been maintained and does it protect the poor in our society?

I define the safety net to include the programs that provide benefits to the poor and only to the poor; AFDC, SSI, public housing, subsidized housing in general, section VIII, Medicaid, low-income home energy assistance, and the earned income tax credit, as well as food stamps and the child nutrition programs.

In terms of budget categories, the safety net includes about half the programs in the income security category plus Medicaid. That definition is not the definition that was used back when President Reagan introduced the term in his 1981 budget. And in my prepared statement I discuss the differences between my definition and his original definition and the evolution of the administration's definition, which I think it probably worth skipping over at this point.

I think that it is useful to have a little bit of historical perspective in considering the budget changes that we have seen over the last 5 years.

Real outlays, and I am going to talk in real outlays throughout this testimony, because we suffered so much inflation in the sixties and seventies and even in the early years of this decade—real dollars for the safety net rose rapidly during the two decades before 1980. You can see this in table 1 at the end of my testimony.

I have in there the figures for individual programs and also the aggregate figures, and I will talk briefly about the aggregate figures. As you can see there, real outlays doubled from 1960 to 1970, doubled again from 1970 to 1975. Now, this is a period when many of these programs were being started and were being expanded so that you would expect substantial growth.

From 1975 to 1980, we had few new programs being created, no major programs being created, and we had general economic growth throughout the period.

The growth rate in the safety net slowed up but——

Senator BOSCHWITZ. During that period we had low-income energy assistance.

Mr. WEICHER. That is small in terms of the total figure here, a $1.25 billion is small in terms of the $50 billion.

Senator BOSCHWITZ. It is bigger than that is it not?

Mr. WEICHER. Well, I will have to look at the specific numbers in the table, but it is small relative to—right, I am sorry, by 1980 you have a couple of billion in both of these programs in today's dollars. But they are certainly small compared to the programs that were started up in the period before that.

So in this 5-year period, from 1975 to 1980 we have real growth of about 40 percent, slower, certainly, than we had had before that,

but faster than the growth of the overall economy, faster than the growth in the rest of the Federal budget.

And as of 1980, we had further growth in store. And here, let me refer you back to table 2, which will track the movement in the safety net from 1980 to 1985. President Carter's last budget, submitted as he was going out of office, proposed an increase of 11 percent by 1983 and further small increases in 1985.

President Reagan's revised budget in March 1981 was quite different. It called for a 5-percent real decrease by 1983, and for further small decreases until 1985. The Congress essentially split the difference. It gave President Reagan about half the cuts that he asked for so that there was a small real increase instead of a small decrease.

Now, this certainly was a departure from the long established trend and it cut the growth rate very sharply, but the dollar differences were not that large, about $4 or $5 billion a year less than President Carter asked for and about $4 or $5 billion a year more than President Reagan asked for.

And not much has happened to the safety net since 1981. The changes that Congress approved in 1981 have turned out to be the changes that they were willing to approve, period. Basically there is one big but partial exception and that is subsidized housing, otherwise the safety net has been stable since 1981 and overall, from 1980 to 1985 real expenditures have risen by about 12 percent, compared to 40 percent in the previous 5 years.

Part of that increase is a result of the recession and I have a discussion on the next page on how the recession interacted with the changes in the safety net. Neither President Reagan nor President Carter had that recession budget projections, neither of them anticipated it, neither did most private forecasters, and neither did the Congressional Budget Office. They were not alone on that.

And the recession drove up actual outlays by about 5 percentage points or about $3 billion. So actual outlays for the safety net, especially in 1982 and 1983, turned out to be fairly close to President Carter's original projection.

The recession made more people eligible for programs such as AFDC and food stamps and raised expenditures almost as much as the program changes reduced them.

In food stamps, for example, savings would have been about $1½ billion in 1982, if the economy behaved as expected, but the rise in unemployment pushed outlays up by about $1.2 billion.

And, even now, although the recession is well behind us, the unemployment rate is still above the 1981 projections, so that expenditures are still above the 1981 projections. In the absence of the recession, I estimate that real expenditures on the safety net would have increased by less than 10 percent over the last 5 years.

Senator BOSCHWITZ. Are you maintaining that there was a need for faster growth?

Was there a need for real growth in excess of what it was, particularly when real growth was so rapid in the 1960's and 1970's?

Mr. WEICHER. I do not think so, Senator. I will offer some supporting evidence in this testimony, but my view is that the safety net is reasonabley sized at this point, and that we have, in fact, maintained it.

I can turn to that now, if you want.

Senator BOSCHWITZ. No, carry on; I do not mean to cut you off.

Mr. WEICHER. OK, fine, then I will talk for a few moments about the structural changes in the program and just summarize very quickly this section of the testimony.

The budget savings have been achieved through a set of systematic and generally consistent structural changes across the individual programs.

I can identify five basic policies which I will just mention briefly and not go into as much detail as I have in the testimony.

First, benefits have been targeted more narrowly to the poorest people, and in most programs, income limits have been lowered to eliminate those who are relatively well off.

Second, there has been an emphasis on giving assistance only to the deserving poor.

Senator BOSCHWITZ. The problem is when you say the most pervasive. Pervasive is normally a pejorative term.

Mr. WEICHER. I do not mean it to be pejorative.

Most consistent if you prefer, or most extensive, most consistent.

That effort to eliminate the relatively well-off from program eligibility extended across just about every program.

Second, there has been an emphasis on giving assistance only to the deserving poor or the truly needy, to recall a phrase from 1981, which seems to mean people who cannot work, and not to give help automatically to everyone who is poor.

Third, there has been more flexibility for the State and local governments which actually run the programs. Mostly through block grants but also through reduced program regulations. The block grant extends to other programs outside the safety net, particularly in education and social services, as well. It has been applied in food stamps and nutrition programs, and also low-income home energy assistance within the safety net.

Fourth, there have been some cuts in benefits for those who remained in the various programs, even if they were below the poverty line. There have been a number of small changes in most programs, tightening of the rules, and deferring cost of living benefit adjustments.

The largest changes that have been approved come in subsidized housing and Medicaid. They may have each reduced outlays by about $\$½$ billion a year.

Fifth, there has been an effort to curtail waste and abuse by providing new incentives to States and localities to reduce errors and new penalties for failing to do so. And of course, you have just been talking about that, with the previous witness.

Now, after all of these budget and structural changes, it is reasonable to ask if the safety net still holds? I think that it is too early to give any final answer, but it is possible to make some preliminary assessments based on the expenditure changes that have occurred, and I offer a simple summary in table 3, a way of evaluating the changes, which is the ratio of the total amount of assistance being provided by these programs, relative to the number of people living below the poverty line.

And as you can see, outlays for each poor person rose sharply in the two decades before 1980. They were a little less than $1,900 in 1975, and a little less than $2,300 in 1980.

The changes enacted in 1981 have brought that figure down to about $2,100 or a little less in 1983, about halfway between the figures for 1975 and 1980.

I do not think that is a large change. Moreover this ratio does not really measure benefits actually going to the poor, because eligibility for many of these programs was not, in 1980, and still is not, in 1983, limited to people in poverty. The efforts to improve targeting have offset part of the reduction. In food stamps, for example, the share of benefits that went to the poor, increased from 72 percent in 1980 to 81 percent in 1982. Now, one problem with evaluating the effects of the policy changes is that they occurred at the same time as the 1981 and 1982 recession. But I think that it is clear that the recession has been much more significant than the policy changes in affecting the well-being of the poor. During the recession, the poverty gap rose substantially from $36 billion 1980 to $46 billion in 1983. That is the amount of income necessary to bring everyone below the poverty line up to it and these are the figures after you count all cash income including welfare payments.

The 1981 policy changes account for about $1 billion of that increase, and the rest of the increase, the other $9 billion, is the result of the recession.

When you include the major safety net programs that provide benefits in kind, such as food stamps, and you count them as income to the recipient, then you have a smaller poverty gap, of course, and a smaller increase in the poverty gap from $18 billion in 1980 to $26 billion in 1983. Less than half of that increase can be attributed to policy changes that Congress enacted in 1981.

Let me turn to the conclusion and answer the question that you asked me a moment ago.

There has been a change in the momentum of policy, if not the direction. The growth of the safety net has been slowed, if not quite halted, and the safety net has not been extended further; we are not adding new programs, and we are not expanding eligibility for the programs that we have.

I really think that is what most of the political argument has been about, such as the fairness issue during the campaign last year. There are many people who think that the safety net was not adequate in 1980 and they wanted to see it expanded, rather than cut back in any way at all.

But the effects of this change in momentum on the welfare of most poor households has probably been small. I think that the changes in the safety net have turned out to be less significant than much of the public discussion would suggest. The safety net has probably been maintained, particularly for the poorest people. If there is an issue of fairness, it probably applies to the working poor, but overall the changes in the income distribution, the changes among poor people, are much more as a result of the changes in the overall economy, the recession in 1981 and 1982 and the recovery that we have had since then, then they are of the policy changes in the safety net enacted in 1981, or since.

Senator BOSCHWITZ. Well, this has been a very broad and a very valuable statement. I have not seen a broad assessment like this done so well and with this kind of an oversight, so I appreciate it very much.

As a matter of fact, we will reread it. Is this the only statement that you have?

Mr. WEICHER. That is the full formal statement including the points that I did not try to go into in detail.

Senator BOSCHWITZ. I will reread it because I think that it gives us quite a broad oversight. It does not seem to pull any punches and there is no question that the safety net apparently is still intact. But there has been a slow down, as you say, in the expansion of the money that has been directed towards it, so it is valuable testimony.

I want to recess for about 5 minutes; I have a phone call. I will be back in just about 5 minutes.

[Whereupon, a brief recess was taken.]

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Thank you, Senator, and I appreciate the opportunity to be here today. What I would like to do is to go through parts of my testimony and, skipping some parts, comment first on certain matters relating both to the current status of the program and some of the safety net issues that John just talked about, and then turn to some of the specific legislative issues that are before the committee.[1]

The first point that I would like to make is that I think that it is very important when the committee examines food stamps this year to recognize that the Food Stamp Program has changed. And, while it has always served a quite needy population, that the population that it now serves is even needier than in the past.

Specifically, the USDA analysis last year found that 95 percent of all food stamp households have a gross income below the poverty line during the period in which they received food stamps. Moreover, 98 percent of the benefits go to households below the poverty line.

Second, there is a growing proportion of those who were on food stamps who are from what we often call the poorest of the poor, or the very poor category. That is the category of people whose incomes are below half the poverty line. We now have 42 percent of the food stamp households below half the poverty line; over 50 percent for families with children; and 59 percent of all benefits go to families below half the poverty line.

Now, in a number of ways, that is somewhat different than in the 1970's, when less than 90 percent of the total caseload was below the poverty line. Let us look again at this issue of the poorest of the poor; in 1980, a new Congressional Research Service study finds that 27 percent of food stamp households with children were in the poorest group, but I think that by 1982 or 1983, the figure has climbed to 51 percent.

---

[1] See p. 127 for the prepared statement of Mr. Greenstein.

The point I draw from this is that any further benefit cuts in the Food Stamp Program will hit very needy people: There are no longer people with higher incomes on the program. For those who are not on, they are not only below poverty, but increasingly, they are in the poorest of the poor group.

The next point that I would make, I think is very important as well, and that is that while we may debate whether or not the safety net is still growing, growing more slowly, contracting, or whatever, there is no question but that the Food Stamp Program has not only stopped growing, it has started to decline.

By the latter half of 1984, participation was at its lowest level in nearly 5 years. Participation in the latter half of 1984 was several hundred thousand persons below 1980 levels, despite the fact that the number of people below the poverty line was 4 to 5 million persons higher in 1984 than in 1980. To have a reduction in the caseload, while poverty is up 4 to 5 million is a very striking development.

Several recent studies bear on this. Last month, the Congressional Research Service reported that the percentage of children who are poor and get food stamps fell from 76 percent in 1978 to 69 percent in 1982. In a new study sent to Congress last week, USDA reported that food stamp participation is now below where all of its models indicated that it would be. It is falling each year. The report finds that after economic factors and budget reductions are taken into account, the program has 600,000 fewer participants than all of the historical data and economic analyses can explain.

No one is sure what is causing this relative decline in participation, but we do know that the program has been tightened and reduced in scope considerably more than generally has been recognized. When the program was up for reauthorization 4 years ago, one criticism made was that it was growing out of control.

Whether or not that was actually the case in 1981, it is not the case today. The program appears now to be serving a smaller proportion of those who are eligible than it has at any time since the implementation of the 1977 Food Stamp Act.

I would note, by the way, that this is not at all inconsistent with the testimony that John has presented. If we go back to John's table no. 3, which as he noted, sums up some of these issues, you will note that benefits for poor people have declined by 10 percent. One really cannot simply look at adjusting for inflation because that does not take into account the number of poor people.

Senator BOSCHWITZ. Both of which adjustments?

Mr. GREENSTEIN. Inflation, and the number of poor people.

Both of those adjustments are in table 3, which I think is the most useful table here.

You do see that from 1980 to 1983 there is a reduction of about 10 percent in outlays for poor persons. Now, during the break, John and I were just talking about the fact that this includes Medicaid in the table. Medicaid, as you know, rises at a much faster rate than the general inflation rate. Health care costs are vastly outstripping general inflation.

Senator BOSCHWITZ. Not so much any longer, but certainly it was the case during——

Mr. GREENSTEIN. It really only stopped doing that, since this table, since about 1983.

Senator BOSCHWITZ. Yes, I agree with that.

Mr. GREENSTEIN. If one takes the 1980 to 1983 period on this table and you remove Medicaid—because the increase in Medicaid costs was not the beneficiary getting more, it was the doctors and the hospitals charging more at a faster rate than inflation—what you will find is the remaining means tested benefits are down about 15 percent or more per poor person during that period.

There is a CRS study on this, that——

Senator BOSCHWITZ. You agree with that?

Mr. WEICHER. I think if you try to adjust each program for the change in the cost of that program category, you would get a little different pattern. But while Medicaid has—inflation in medical costs has been greater than the average, inflation in food has been less than the average since 1980, and inflation in housing has been less than the average since 1980. I do not know what the specific figures would show but I think that the increase in Medicaid would be offset to some extent, if not entirely, by decreases in the others. It would not change any conclusion that I stated here.

Mr. GREENSTEIN. I think there is a little more to it than just saying benefits for poor persons went down 10 percent. If they are down more than that in benefit programs and less than that in Medicaid, there really was not more medical care provided for poor persons in medicaid, but the charges went up.

If we come to the issue of hunger and poverty we do know that from 1978 to 1983 the number of persons below the poverty line rose 10 million or 40 percent, with the greatest increase among children. The number of children in poverty since 1979 is up 51 percent. One in every four children below the age of 6 is now poor; two of every five Hispanic; and one out of every 2 black children below the age of 6, are poor.

For some time, there was a fair amount of debate between those who would argue that cuts in the food programs had caused a large upsurge in hunger and those who denied that a hunger problem existed.

I think the evidence increasingly indicates that both of these positions were mistaken. The problem of hunger is real, as the President's task force noted last year; hunger remains a significant problem throughout our Nation, but the problem is caused by many factors and the Federal budget cuts in the food program were probably not the principal cause here.

There are many factors involved such as rapidly rising inflation of the late 1970's and early 1980's and the economic downturn. Rapidly rising energy costs meant that home heating bills took up a far larger percentage of the poor family's limited incomes, leaving less for necessities such as food. Early in the energy program, between 1977 and 1980, the energy income offset less than one-third of the increase in low-income heating bills.

There has been a decline in the stock of very low-rent housing units that was caused, in part, by urban redevlopment which caused rents for the poor to go up.

Budgetary changes also played a major role at the State level as well as at the national level, however, and even more in areas other than food programs.

AFDC benefits continued their precipitous decline. By 1985 AFDC benefits had fallen 37 percent from 1970 levels when adjusted for inflation. Even more striking, the Congressional Research Service recently found that AFDC and food stamp benefits combined are now just about down to the level of AFDC benefits alone in 1960, before the Food Stamp Program was even created.

The bottom line here is that while there have been benefit increases for low-income elderly in the late 1960's and 1970 due to Social Security indexation on the creation of the SSI Program, benefits for families with children have fallen substantially.

The unemployment insurance system has contracted sharply and other changes have occurred as well. All of these help explain why so many more food stamp families now fall into the very poorest category and why poverty and hunger have risen. But while the 1981 and 1982 reductions in Federal food programs may not have been, or appear not to have been, the principal causes of the problems that we face, I really think that that should not be the crucial issue in determining what direction the Food Stamp Program should take.

What matters most is that whatever the cause, poverty is more widespread today and hunger is more serious. Moreover, we cannot return energy prices to their previous low levels and we are not likely to return AFDC benefit levels or the low-income housing stock to where they were 10 or 15 years ago.

What I am really saying is that this makes the Food Stamp Program even more important to poor families and very poor families than it used to be, which makes it critical that there be a commitment to enact no further benefit cuts this year.

I noticed that in his opening statement today Senator Dole reiterated the point that we must not make further benefit cuts in the Food Stamp Program this year, and as President Reagan said in his budget speech in April, the one area that we will not touch is the safety net for needy Americans.

I would very much hope that that is the course that this committee follows.

In regard to the legislation before the committee, I would urge support for S. 1142, Senator Dole's bill, which I fully view as responsive. And I would hope that it would be the basis for the committee's decisions on food stamps this year.

The bill avoids further benefit cuts, while satisfying the requirements of budget constraint. I will also note that it does have a small benefit restoration for the working poor, the group that has been hit the hardest by the budget cuts in recent years. I think that it is particularly important because, at a time when the President is proposing that we need a top tax rate of 35 percent to restore incentives, when we look at the combined marginal tax rates for working poor families, what you lose from taxes and from AFDC and food stamp benefit reductions range (and I have a paper on this that I can provide you) between 85 and 120 percent if they are on AFDC, and between about 40 and 60 percent if they are not on AFDC.

Senator BOSCHWITZ. Would you say that again, please?

Mr. GREENSTEIN. Sure.

The marginal tax rate is, for each additional dollar that you earn, the fraction of that dollar which you lose through income and payroll taxes, and through benefit reductions. As your income goes up, your AFDC goes down and your food stamps go down.

Back in 1980 when we had a top rate of 70 percent, the argument was that we needed a lower rate to spur incentives. It is now 50 percent and the tax reform proposal would lower it to 35 percent.

But for the working poor, because they not only pay income and payroll taxes but they also face losses in AFDC and food stamp benefits as their incomes go up, you get a combined effect. A lot of analysts across the political spectrum, conservative and liberal, recognize what is often called the poverty trap—your income goes up and you lose so much from benefits and taxes that you are not much better off than you were before your income went up.

The marginal tax rates for families on AFDC and food stamps are now in the vicinity of 100 percent. If they earn an additional dollar, they gain almost nothing. If they are on food stamps and not on AFDC, they are in the vicinity of 50 percent. They are really too high.

While the provision in S. 1142 would make only a small impact on that, anything that helps lower the marginal tax rate, for the working poor, is positive and desirable to create more incentives.

Senator BOSCHWITZ. Have you looked at the new tax proposal, with the increase in the standard deduction and an increase in the exemption?

Mr. GREENSTEIN. Yes, we have looked at it carefully. In fact, I am testifying before three different committees on it and, in terms of its impact on the working poor, we are very supportive of that.

There are a few areas, like everyone else, where we have some criticisms and reservations, but on the whole we support the plan and think that the provisions dealing with the working poor are quite well developed.

Senator BOSCHWITZ. I would suppose that it is the Social Security tax as much as anything else that bites?

Mr. GREENSTEIN. It is only partly that. Under current law, a lot of these people pay income tax, and you also have the result of the earned income tax credit which at a certain income level you lose 12 cents on that for every dollar that you earn. When you put together the income tax, the earned income tax credits, the Social Security payroll tax, AFDC, and food stamps, the combined effect is extraordinary and it is something that nobody, regardless of their political views, I think, would think is desirable if they were designing a system like that.

Senator BOSCHWITZ. It seems to be not very productive.

Mr. GREENSTEIN. I am deeply troubled by S. 616, Chairman Helms' bill. This bill would cut benefits for every elderly person, every poor child, every low-income person in the program. It would force hundreds of thousands, and perhaps millions out of the program altogether despite their poverty.

It seems to me that that is entirely inconsistent with President Reagan's pledge that there will not be further cuts in the safety nets for needy Americans.

The bill includes such provisions as restoring the purchase requirement which, based on our experience in the late 1970's, would be likely to push several million persons—primarily from rural areas—out of the program. Elimination of the purchase requirement resulted in more poor people who had not been able to afford their food stamps in rural areas coming on to the program, and it had very little impact in urban areas.

That proposal would also increase administrative complexity and have potential for fraud, as thousands of private vendors would have to handle billions of dollars in Federal cash.

The bill would freeze benefit levels in the Food Stamp Program. And benefits would reflect the cost of the thrifty food plan 1 to 2 years earlier. President Reagan and Senators Dole and Domenici have all stated that the cost-of-living adjustments in the programs for the poor should not be frozen.

S. 616 is not in accordance with that.

The bill eliminates hundreds of thousands of the working poor. In 1981 President Reagan proposed, and the Congress agreed, to set income limits at 130 percent of the poverty line. S. 616 lowers it over time to 100 percent of the poverty line. As a result, low-income working families with gross incomes between 100 and 130 percent of poverty but whose net incomes are below poverty after taxes, work expenses, and other expenses, like high shelter costs are taken into account, would be taken off the program.

In addition, a large benefit notch would be created which would build major new work disincentives into the structure of the program.

The bill also includes three Grace Commission recommendations which would result in dramatic benefit reductions. One proposal would cut benefits for families with children eligible for school lunches. A similar proposal was defeated 14 to 3 in 1981, when it was found that close to one-half of all households below one-half the poverty line would have their benefits cut.

The proposal to eliminate the minimum benefit for the elderly and disabled would reduce or remove thousands of elderly and disabled from the program and was also rejected by the committee in 1982. A new proposal to recompute and reduce food stamp benefit levels for all households would cut benefits over $700 million a year and reduce benefits for almost every household in the program.

I think that it has been recognized by most people that the Grace Commission recommendations consist both of useful recommendations that can improve management efficiency and reduce waste, and sweeping proposals that go way beyond efficiency and make frequently undesirable policy changes in benefit programs.

Last year the Congress adopted a useful Grace proposal to promote wage matching and reduce earned and unearned income errors in food stamps, AFDC and SSI. But the additional Grace proposals in S. 616 have nothing to do with management and efficiency. They are massive benefit cuts, pure and simple, and they would cause severe hardship.

CBO has analyzed these proposals and they have found that 90 percent of all households, 99 percent of all households with incomes below half the poverty line, and 99 percent of all households

with children would have their benefits reduced under the Grace proposals. Six and a one-half million households would lose an average of $235 a year apiece in food stamp benefits under those proposals.

Those are only a few of the benefit reductions in that bill. There are at least eight other significant benefit reductions including a provision to reduce or terminate benefits for poor families who double up and share living quarters, which is an increasing problem in urban areas where not enough low-rent units are available. That proposal was explicitly rejected by the President's Task Force last year when they found that it would cut benefits for over 100,000 persons. Another proposal, which I think is just an example of the flavor of the bill, would reduce or terminate benefits for students who receive scholarships for tuition costs.

Now, all the part of the scholarship for living expenses is already counted. The only students who are left in the Food Stamp Program are poor students who are handicapped, care for children, or work as well as attend school. Most of them were eliminated several years ago. What this proposal would do, for example, is that if you have a paraplegic student who gets a scholarship for tuition and the entire scholarship goes to the school to pay the tuition, the student's food stamps would be severely reduced or terminated as though the tuition scholarship to the paraplegic student were available for food. Other provisions in the bill might be of interest to this committee, including one that would eliminate virtually any poor farmers who were in the program by requiring the value of the farm be counted as an asset against the program's $1,500 asset limit.

In addition to these numerous benefit reductions in the bill, there are two other areas of major concern: Error rate sanctions and block grants.

S. 616 proposes to substantially increase fiscal sanctions which, I believe, would be a serious mistake. The sanctions under the current system which was authored by Senator Dole in 1982 are substantial. Sanctions for errors committed in fiscal year 1983 will amount to about $10 million. Sanctions for errors in 1984 will amount to about $70 million; errors in 1985, about $200 million. Sanctions grow, even though error rates are dropping and are expected to continue to drop because the 1982 law purposely phased in the much stiffer penalties.

Now, there is no evidence to show that the current system is not adequate. When the current sanction system was enacted in 1982, error rates were close to 10 percent. Following its enactment they fell to 8.3 percent in 1983. Several years ago, the administration submitted a proposal to increase sanctions. CBO analyzed it and concluded that it would not result in lower error rates, just in bigger sanctions.

There is another issue here, that I think is very important. Those who argue for bigger sanctions often claim that the Food Stamp Program is more poorly managed than Medicaid or AFDC because the error rate is higher. But a careful review of the evidence does not bear this out.

True, the food stamp error rates are over 8 percent and the Medicaid error rates are about 3 percent. But the food stamp error rate

has two components: payments to people who are totally ineligible and payments to people who are eligible but get more than they should. The Medicaid error rate has only one of those two components, payments to people who are ineligible. Overpayments to people who are eligible, like at the hospital or a doctor overcharges or gives them services that they should not get, are not included in the Medicaid error rate.

If you compare apples and apples instead of apples and oranges and you compare the Medicaid error rate to the comparable part of the food stamp error rate, payments to people who are totally ineligible, what you find is that the food stamp error rate is 3.6 percent.

In other words, over one-half of the food stamp errors are a category of error that is automatically excluded from the Medicaid error rate.

Senator BOSCHWITZ. In dollars or in numbers?

Mr. GREENSTEIN. These are all in dollars.

Senator BOSCHWITZ. In other words, the error rate is in dollars, not in numbers.

Mr. GREENSTEIN. The food stamp error rate is now 8.36 percent of all dollars issued. That means that 8.36 percent of the dollars are issued in error. In Medicaid, the official error rate is about 3 percent, but it only counts one of the two categories of errors.

Senator BOSCHWITZ. I understood your testimony, but it is a little easier to count. I would imagine, there is more of a fluid population with food stamps than there is with AFDC or Medicaid.

Mr. GREENSTEIN. That is exactly right.

The next point that I was going to mention is that the AFDC error rate is about 7.3 percent and food stamps is about 8.3, but the caseloads are very different.

HHS did a study a few years ago and found that the error rates were three times higher for households with earnings than for households without earnings. USDA examined food stamps data and found that 45 percent of all food stamp errors are related to earnings. Three times as many food stamp households, have earnings as do in AFDC. If you had the same proportion of earners in food stamps as you do in AFDC, not only would the whole difference in the error rate disappear, food stamps would have a lower error rate than AFDC.

And you get to the second issue, unearned income, about 8 percent of AFDC households have unearned income and over 35 percent of food stamp households have unearned income other than the AFDC grant. That is the second largest cause of food stamp error.

Senator BOSCHWITZ. Like what?

Mr. GREENSTEIN. Unemployment compensation, disability, veterans pensions, SSI, Social Security, railroad retirement, and a whole range of things, that accounts for 26 percent of food stamp errors and again, four to five times as many food stamp households have unearned income as AFDC.

The last difference is that HHS found a 50-percent higher error rate in the two-parent AFDC families than single parent families. About 8 percent of the AFDC caseload is two-parent families but in food stamps the corresponding percentage is considerably higher than that.

But it is easier I think to understand here that the AFDC caseload is overwhelmingly single parent families, usually young women with children and no outside income and they are much less error prone. Food stamps are the only program that we have that is available to all the poor; it covers two-parent families, it covers single individuals, and it covers people who were in and out of the labor force.

Senator BOSCHWITZ. In your judgment, Bob, how does participation of the State, in AFDC or Medicaid bear on the error rates, since the Food Stamp Program is entirely federally funded?

Mr. GREENSTEIN. Senator, I think that is the point that I am getting at. Let me summarize a longer analysis that we have just completed this week which I will provide you. But what I think it demonstrates is that different Federal financial participation does not appear to be a significant factor. The reason that I say that is that I think the evidence bears it out. When you compare the food stamp and Medicaid error rates on a comparable basis, they are within 1 percentage point of each other.

Senator BOSCHWITZ. Mr. Richman's statement about the efforts of the States, I should not be so hard on him.

Mr. GREENSTEIN. When you compare the AFDC and food stamp error rates and you adjust for the differences in earnings, unearned income, two-parent families, and other differences, food stamps actually come out looking as good or better than AFDC.

If you go back 4 or 5 years when we had neither sanctions nor Federal participation, there was less pressure on States to reduce food stamp errors, so they paid somewhat less attention to it.

I think the provisions enacted in 1979, 1980, 1981, and 1982—a lot of tightening provisions—plus the sanction provisions that we now have in law have dealt with that issue. The sanctions are having their effect, and States are making very determined efforts to lower their error rates in food stamps, just like in AFDC and Medicaid. When you compare the error rates and adjust for the caseload differences, then you cannot find anything to support the claim that the differences of Federal financial participation means that there is less of an effort going on.

It also shows something else. Senator Helms will argue, that current error rates require a 3-percent tolerance level in Medicaid, and a 5-percent tolerance in food stamps to avoid sanctions. I think that this analysis shows that you should have a higher tolerance in food stamps. How can you have the same tolerance in food stamps and Medicaid when Medicaid does not count the major component of error that we count in food stamps? How can you have the same tolerance for food stamps and AFDC when they have such different caseloads?

Senator BOSCHWITZ. How does Senator Helms or his assistant answer that question?

Mr. GREENSTEIN. As I understand it, and I cannot speak for Senator Helms or Tom, but the argument that I frequently have heard them make, is that the error rate is higher in food stamps than in AFDC and Medicaid; that the sanctions require a lower tolerance in AFDC and Medicaid than in food stamps; that there is less Federal financial participation in food stamps than in AFDC and Medicaid; and that this is why the food stamp error rate is higher.

And what I am suggesting is that while that analysis may look attractive on the surface, it is a superficial one because it does not take into account differences in the definition of error rate or in the caseloads.

Senator BOSCHWITZ. Without meaning to interrupt your flow, maybe I can ask Tom Boney and Secretary Bode to comment.

Tom, would you like to comment on some of the aspects of this discussion?

Mr. BONEY. Yes, sir; Senator Helms' bill this year, and in the past, proposes to lower the error rate to 3 percent. There are two issues here. One is that the error rate would be down to 3 percent, rather than 5 percent as at present, and the second is that the basis for the sanction, rather than being a percentage of administrative costs, would be the percentage of benefits overissued in the State, above whatever tolerance level there is. If it is 3 percent, the State would pay back whatever percentage above 3 percent of benefits that were overissued.

The primary cause for this is a concern that the Food Stamp Program, unlike AFDC and unlike Medicaid, is 100 percent federally funded, so that the Federal Government has a much greater financial interest in the benefits that are being overissued to recipients. And that, the Federal Government has, therefore, an interest in being sure, even more so than in the other two Programs, that the States are paying attention to the proper administration of the program.

That concern is accentuated by the fact that States seem to spend a greater portion of administrative costs of computerization and of other resources which are State priorities in administering the Medicaid and the AFDC Programs rather than in administering the Food Stamp Program.

The cumulative impact of all of this seems to us to be that States have not been aggressive in improving the administration of the Food Stamp Program and that greater sanctions are needed in order to compel their attention to the need for improvement in the Food Stamp Program.

Senator BOSCHWITZ. Have the error rates in the Food Stamp Program decreased less than the error rates in SSI or in AFDC?

Mr. BONEY. Have they decreased less?

Well, the percentages, I do not know if there is a great deal of difference. The food stamp percentages start much greater. In other words, you are starting at 12 to 13 percent and now it is down to around 9, I believe, on a national basis, whereas, AFDC was lower to begin with, at 8 or 9 percent and so if it has come down, you are dealing with the percentage points that it has come down, versus the percentage of where you started.

Mr. GREENSTEIN. Food stamps has decreased more.

Senator BOSCHWITZ. More.

Mr. BONEY. The percentage reduction is greater but it also started from a higher base.

Senator BOSCHWITZ. Has it decreased by a larger percentage of the original?

Mr. GREENSTEIN. Yes.

Senator BOSCHWITZ. In other words, if they had 12 percent originally and they are down to 9 percent, that represents a 25 percent

decrease. Is that 25 percent decrease a larger decrease than the error rate decrease of the other two programs, AFDC and the Medicaid?

Mr. GREENSTEIN. I do not know about Medicaid. It is larger than AFDC, yes.

Senator BOSCHWITZ. Is it reasonable to assume, perhaps that it should be larger, because it started at a higher level?

Mr. BONEY. Yes, sir.

Senator BOSCHWITZ. Would you comment, Tom, that the Medicaid error rate is lower indeed, but that the Food Stamp Program counts errors in both the payments to ineligible households and the overpayments to eligible households?

Mr. BONEY. I am not as familiar with the Medicaid Program, Senator, and I was not particularly familiar with this point.

The normal analysis that we have used as comparison is with AFDC, which the testimony does cover, and with the SSI Program in which the reverse situation operates. The Federal Government administers the SSI Program, including in States that provide a State supplement. When the Federal Government over issues benefits that included a loss to the States, the Federal Government has to reimburse the State——

Mr. GREENSTEIN. That is no longer true, Tom. That was stopped a year ago.

Mr. BONEY. My understanding was that it had been proposed but that it had not been implemented.

Mr. GREENSTEIN. It has been implemented.

Senator BOSCHWITZ. Mr. Bode, Assistant Secretary Bode, I might say that I think that this is the first time that you have appeared before the committee, since you have risen to higher heights, and I congratulate you on that.

Mr. BODE. Thank you, Senator, I have been nominated for the position and I hope that——

Senator BOSCHWITZ. Well, it says right here that you are Assistant Secretary.

Mr. BODE. Well, the staff is being very good to me.

Senator BOSCHWITZ. That is the equivalent to the confirmation.

Mr. BODE. Senator, I think that Bob's analysis and his points and Tom's points all are interesting and help to shed light on the comparison between the programs. I think that should not be the determinative factor, however.

In our view, it is important to keep in mind that the taxpayers are paying the cost of the errors, in either situation.

We believe that it is most appropriate that the State level, where the management and resouce allocation decisions are made with respect to the administration of the program, and where the real efforts to bring down the Food Stamp Program error rate can be made and pay off, where fiscal responsibility for errors in the Food Stamp Program should rest. We believe this is most appropriate rather than having tax dollars collected at the Federal level pay for errors made because of management decisions at the State level, and insulate the State level from the cost of most of those errors.

Senator BOSCHWITZ. Would you comment on the point that Mr. Greenstein made, that I also asked Tom, that in scoring the per-

centage of errors, a double standard, so to speak, or a dual standard is used in food stamps that is not used in other programs?

Mr. BODE. Well, first of all, I believe the references were made to Medicaid. We have not made more than just a passing reference to Medicaid comparison at any time in the last several years, and I believe there were some very significant differences between the programs, that cause me to not regard Medicaid as an appropriate comparative program to food stamps because of some very different program characteristics.

And with respect to AFDC there are some differences, but I think that once again, if we go back to the situation where in AFDC, approximately half of the benefits in the program are paid for at the State level and the States are fiscally responsible for half the benefits issuance losses that result from errors. In the Food Stamp Program, of course, they are not.

Senator BOSCHWITZ. Do you have any other comments, you or Mr. Weicher, or Mr. Greenstein's testimony up to this point?

Mr. BODE. They have covered a lot of ground and I will not jump in with other comments at this point, sir.

Senator BOSCHWITZ. Back to you, Mr. Greenstein, I am sorry for that interruption.

Mr. GREENSTEIN. It is quite interesting.

I would also add, Senator, that it goes even further and I will give you another example.

Senator BOSCHWITZ. I might say that I apologize for those interruptions, but as you can understand, having been around here, that we are expected to know everything about everything. While one hates to say it, we probably do not.

Actually it is for sure that we do not and so sometimes it is of great interest to me to get the opposing views discussed during a hearing.

Mr. GREENSTEIN. I welcome it and I think that it is a useful way to proceed.

You know, I said that in Medicaid and food stamps if you were not eligible because your income or assets are $50 over the limit and you get a $250 benefit that is a $250 error in Medicaid. If you are $50 over the limit, you can still get a $250 benefit, it is simply a $50 error. John referred to the Medicaid error rate being lower, so that I am glad to hear that it is not likely to increase in the future.

Senator BOSCHWITZ. You may have to give him another chance to defend himself in a moment.

Mr. GREENSTEIN. Let me mention, though, in regard to what Tom and John said that I really do not think that their statements in any significant way counter the basic point that I was making.

The basic complaint that I was making is this; error rates are inevitably higher in food stamps than in Medicaid, because there is a different definition. They are inevitably higher in food stamps than AFDC because the caseload is different.

What that means is that to have the same error rate in food stamps as in AFDC requires not an equal management effort but a vastly superior management effort in food stamps. You cannot have the same error rate for the program that has three times as many earners and five times as many people with unearned

income. And that is why I think that it is entirely proper to have the kind of system that we have now, where we have a 5-percent tolerance in food stamps.

For those reasons, I would urge the committee to leave the current sanction system enacted in 1982, which is itself a tough system with $200 million a year in sanctions now in place. I would note, also, that the administration is not proposing any change in the error rate sanction system this year. Their bill does not propose a change which I think is the right way to go.

The final major area that I would like to discuss is block grants. I am greatly concerned about them. They do represent a fundamental philosophical shift and I think that they would have serious consequences for the Food Stamp Program and, in many ways, I think that it is the most important food stamp issue before the committee.

One of the outstanding features of the Food Stamp Program as currently constituted is that it can respond immediately to changes in the economy or demographic changes. A block grant cannot respond to economic and demographic changes in the same manner. If unemployment rises and the economy turns down, a block grant can result in hardship.

Equally important, under the Food Stamp Program there is an entitlement for individuals. If the family or a child is needy enough to qualify, they receive benefits no matter what State they are in. With the block grant, the entitlement to individuals would end and States would receive a fixed amount of funds. If the funds proved insufficient, benefits would have to be cut or needy persons would be left out of the program.

I think that is particularly important, because the number of people needing assistance in any State varies as economic and demographic conditions change. I think that anyone can argue that it is possible to design a fixed grant program that precisely meets those changing needs. Now, the administration states that it has addressed this issue in its bill by authorizing the Secretary to take State unemployment levels and other factors into account in determining a State's block grant level.

But if you read their bill closely, it really does not answer the problem. Under the block grant, the annual grant amount is traditionally set at the beginning of the fiscal year, and that means that the Department will have to rely on——

Senator BOSCHWITZ. Previous fiscal year.

Mr. GREENSTEIN. Previous fiscal year, yes, well set before the fiscal year that the grant is for starts. That would mean that the Department would have to rely on unemployment data for the previous fiscal year, which would not be of any help if unemployment rose during the year.

Now, as I think that John Bode has noted, block grant amounts could be adjusted during a fiscal year to reflect unemployment changes in theory. But in practice, that is pretty unworkable. No adjustment during the course of a fiscal year could possibly keep up with the changing unemployment conditions in the State. The monthly unemployment rates which the Bureau of Labor Statistics, releases, are a minimum of 2 to 3 months out of date. They are re-

leased 2 to 3 months after the month in question for the unemployment rate.

In addition, a State would not be able to adjust its program to meet the needs of the newly unemployed until the USDA adjusted the grant and USDA could not do that until it received the several month-old data. Then, in many cases, USDA would have to go to Congress to get a supplemental appropriation based on this data, and it would be very easy for OMB to say they do not have the funds to do the adjustment.

Quite important also, is the basic fact that USDA does not know—and I do not say this to criticize them, no one knows—how much to adjust the State grant if unemployment rises. CBO and USDA have both found that every recession affects food stamp eligibility and enrollment differently, depending on a series of factors not well understood. The Department just last week sent a study to this committee that said that the relationship between the Food Stamp Program and the unemployment rate is far more complex than previously thought. The study finds that the impact of unemployment on food stamp participation costs is affected by such factors as the average duration of unemployment, the portion of the unemployed receiving benefits, the point that the economy is at, business cycle changes, the inflation rate, consumer expenditures, personal savings, poverty rates, and a concentration of the labor force.

State data for most of those factors is simply not available. Obtaining it and making reliable predictions on what course the factors will follow during the fiscal year is a virtual impossibility.

Making the problem even worse, the Department also would not know how to adjust the block grant for something so basic as the change in the number of low-income people in the State. State population data is several years out of date and there is no good source of information outside of the dicennial census about demographic shifts that can affect food assistance needs on a State-by-State basis, such as changes in the number of elderly or poor children in the State.

So the bottom line here, is that the block grant is not really capable, even with the best of intentions, of assuring that when additional needy persons apply for food stamps in the State, that funds will be there to meet the increased need.

And the fact that the Department does not know how to do that is reflected in its bill, where no adjustment formulas whatsoever are written into the legislation. Instead, there is vague language giving the Secretary authority to make adjustments however he sees fit. It is essentially a blank check on how, when and in what way to make economic and demographic adjustments. The one factor that we do know how to adjust for is food prices. Every bill that deals with food programs that this committee will deal with except for the administration's bill, has an adjustor in the law. Under the adminstration's bill, the food adjustment would be subject to regulation, subject to approval by OMB and to the availability of appropriated funds.

I am also concerned that the block grant could lead to poorer management. Currently, as we have discussed, States must lower their error rates substantially or face major financial penalties.

The block grant would wipe out the penalties. Under the block grant approach, the State could have a significant fraud and face no sanctions at all.

In fact, it is likely that some States——

Senator BOSCHWITZ. That is in contrast to what Mr. Richman said. He did not know how it would be administered, and was afraid that block grants might lead to a more stringent type of——

Mr. GREENSTEIN. I think that Mr. Richman is not that familiar with this proposal and he is simply incorrect on that front. As a matter of fact, it is pretty well known among the State welfare administrators (Mr. Richman is not a State welfare administrator) that the Department, as one of its principal selling points for the block grant, is saying to State welfare administrators, you go for the block grant and all of the penalties, all the fiscal sanctions will be wiped out. According to the State people that I have talked to, in many cases it is the single point that the administration used to attract them the most and that they are most interested in with regard to the block grant.

There would not have to be any headlines in the State that the State had been sanctioned for $12 million for food stamp overpayments.

When you really look behind the politics of this in terms of the dealings between the administration and the States, they are all talking about more flexibility to design your program, and the major operative issue is that this will get you out of sanctions.

To me the most important issue is the harm to poor families and children. The Food Stamp Program is now the only benefit program in the United States that provides a national benefit for poor families with children. We have a benefit floor for the elderly in SSI and we have nothing other than food stamps for poor families with children.

Under a block grant, this would be lost. The block grant could lead to food stamp benefit reductions for certain types of poor families who have little political clout in the United States, particularly poor children.

The history of cash welfare programs where States sets the eligibility levels and the benefit levels completely bears this out. In these programs, women and children get substantially lower payments than the elderly and disabled and two parent families and childless families frequently receive no benefits at all.

Last year there were 15 States in which a mother and two children with no other income received less than $3,000 a year, or 36 percent of the poverty line, in AFDC. In over half the States no AFDC benefits were provided to a family no matter how poor the family was. Moreover, back in the 1960's when States were allowed to set their own eligibility limits in food stamps as well as in AFDC--some States set the food stamp eligibility cutoffs as low as half the poverty line.

It was following that that major problems of national hunger were found in the late sixties. President Nixon responded by establishing national eligibility and benefit standards for the Food Stamp Program to assure that low-income families—regardless of age or family composition, regardless of what State they were in—need not face hunger or malnutrition. President Nixon took this

action after medical researchers found in the late sixties that when each State was left to design its own program, major gaps in coverage and major problems in poverty-related hunger and malnutrition resulted. I would hate to see us go back on that.

I would add that there is a basic philosophical issue here.

Senator BOSCHWITZ. As a matter of interest, were you casting about in these programs at that time?

Mr. GREENSTEIN. No. I did not come here until 1972. I was finishing high school at the time in Massachusetts.

Senator BOSCHWITZ. I see.

Mr. GREENSTEIN. There is basically a major philosophical issue here. Most of us would agree, that there are many programs popular with the States to run that can be block granted, and others where the responsibilities belong at the Federal level.

For example, I do not think anyone would suggest that we should turn Social Security into an optional State block grant.

So the question is how you view the Food Stamp Program. I very much view it as the only national program we have for poor families with children. All the State level programs have been hurt badly, and their benefits have fallen a third compared to inflation in the 1970's. I would hope we would not go that route with food stamps.

The final point I would like to make is in regard to S. 1142. I have one disappointment, and that is that it does not include the food stamp assets provision that was in last year's Dole bill, and recommended by the President's Task Force on Food Assistance.

Now, as I understand it, this was not dropped for policy reasons but for budgetary grounds so the bill would fit within the food stamp ceilings assumed in the Senate budget.

As you well know, I think you are a member of the budget conference that is now meeting, the food stamp reductions assumed in the Senate budget might be removed in return for House agreement to greater savings in other areas. Were that to occur—I know that the budget conference is not at this point making the most rapid progress—but were that to occur, I would hope that then S. 1142 might be able to be modified accordingly, which would allow inclusion of the assets provisions included in last year's Dole bill and maybe some other modifications. Obviously that would entail a budget agreement in which the House did move in other areas, including some other domestic areas.

Senator BOSCHWITZ. Well, we will watch that. I am, as you mentioned, on the budget conference committee, and it is moving slowly, everything I am involved in seems to be moving slowly these days.

Mr. GREENSTEIN. My hope would be, and I imagine yours is too, that things will get on track and we will have a conference agreement on the budget before the recess.

Senator BOSCHWITZ. Well, that may happen. You saw that happen in the budget process twice already this year, but I would not be optimistic about that happening prior to the recess.

Mr. GREENSTEIN. One can hope.

Senator BOSCHWITZ. Are you done?

Mr. GREENSTEIN. I would like to make to make one final comment in the area of work programs. I think that there is a very interesting work program designed in S. 1142.

Yesterday, and I have not had the opportunity to look at this thoroughly yet, but Congressman Emerson, the ranking Republican on the subcommittee that deals with food stamps on the House side, introduced a new amendment that the House subcommittee passed on the work program. The provision looks very interesting, and I think the committee might want to look at it.

As I understand it, it requires all States to have work programs beyond work registration and allows flexibility such as supported work, which has been found to be very successful, community work experience, job clubs and job search assistance in training of the sort Mr. Atkins talked about, for a traditional job search. All States would have to do one or more of these. They could target it on the people for whom it would have the largest effect.

Let me just say that I have been getting more interested in the work programs, and reviewing the research in the work program area, I do think the administration's approach is a mistake for two reasons.

First, the research clearly shows that in many areas approaches other than traditional work fare are more effective. In some places work fare has had some results; in other places it has not.

Second, the research almost universally shows that if you take a work program and you try and cover the whole population with it, we have what we call a "shallow intervention" for a wide number of people. You do not get many results. After all, what we really want is to get the people jobs and out of welfare. If you have a more intensive approach, which usually means targets covering a smaller percentage of the caseload to a more intensive work-related supplement, you tend to get larger results.

The provision in the administration bill would require 75 percent of all people to be covered under a mandatory workfare program which does not allow the targeting and does not allow the other options. I think most people would look at the research and tell you it is much less likely to move these people into jobs than an approach of the sort you have or the new Emerson approach. Under that approach every State has got to have a work program. We are going to require it but, you know, they can tailor it.

There is a lot of experimentation going on. Some States are doing supported work in AFDC and getting good results. Others are doing community work, and some are doing job clubs. We ought to, if I can borrow the term of a political leader not usually quoted here, "let a thousand flowers grow" in this project. I probably should not have used that phrase.

Senator BOSCHWITZ. What was that statement again?

Mr. GREENSTEIN. Let a thousand flowers grow.

Require States to have work programs in food stamps but have a lot of different option options.

I would just urge a close look at Representative Emerson's proposal or the one in your bill, both of which are work requirements. I think are going to get better results in terms of getting these people into jobs than the more rigid and inflexible approach that is in the administration bill.

We all have the same goal, I think, but I think you are on a better track.

Senator BOSCHWITZ. Thank you very much.

Talking about flowers, we will now have Ruth Flower from the Friends Committee on National Legislation. I thank her for being patient.

Is she here?

I notice your statement is quite long and——

Ms. FLOWER. Senator, if I may, I just hope to summarize the main points.

Senator BOSCHWITZ. Do that.

Why don't you not sit up here. I can follow it a little better by watching the color codes on your pages.

Thank you for coming this morning, and we also appreciate your patience. We will try and make it to lunch by 1 o'clock.

STATEMENT OF RUTH FLOWER, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Ms. FLOWER. I am Ruth Flower. I am legislative secretary for the Friends Committee on National Legislation. This is a Quaker organization, founded over 40 years ago to represent the views of like-minded friends on the issues of peace and justice.

I thank the chairman for the opportunity to speak with you today and, as I said earlier, I hope to just summarize some of the main points in my testimony.[1]

I want to focus my remarks on just two concepts that seem to be at the center of the debate on food stamps and, in fact, on the debate on many programs that affect the poor.

The first is the role of work and welfare. And the second is the relative values of national and local programs—the block grant theme.

The theme of work arises at the center of the current debate. The question is to what extent should society give assistance to people who can work or who are working? There have been proposals that those who are receiving public assistance should be required to work for their benefits. And there have been other proposals that those who are working on their own initiative should not be on public assistance programs. The theme of work is used in defining the "deserving poor" and in determining the relative responsibility of Government and others for the fact of poverty.

There are a number of issues in the bills that are before this committee that relate to work.

Quakers join with many religious denominations in honoring work as a way of participating in society. We joined recently with representatives of other denominations in issuing the "Call to End Poverty." This statement is attached to this testimony. In this statement we point out five policy directions that we believe could substantially reduce and ultimately eliminate poverty in this country. Four of those five policy directions relate to the employed or potentially employable poor.

---

[1] See p. 137 for the prepared statement of Ms. Flower.

In reviewing much of the recent literature on poverty, we learned that 35 percent of all poor households are headed by someone who is either employed full time—that is 8.5 percent—pardon me?

Senator BOSCHWITZ. I see that you skipped over reforming the Tax Code to eliminate the income tax burden borne by the poor. Is that what——

Ms. FLOWER. Yes, that is one of the——

Senator BOSCHWITZ. What Mr. Greenstein was talking about or what?

Ms. FLOWER. I am afraid I missed that portion of his testimony. That would be one of the five policy directions that we would state that relate to the working poor. If they do not have earned income, of course, they do not have income taxes.

So we are finding that 35 percent of all poor households are headed by someone who is either employed full time—that is 8.5 percent—or someone who is apparently employable but is working less than full time year round. That is 26.4 percent. This group, about 9 million households in all, presumably could escape poverty permanently through a well-designed and implemented employment strategy.

Various strategies to bring this group into the job market have been tried or suggested in the Food Stamp Program, including the strategy of denying benefits to categories of people presumed to be employed or requiring work fare or offering work incentives.

I would like to focus particularly on work fare which has received some mixed reviews. Some States and counties have found work fare programs expensive to operate. Some counties have been unable to find jobs for participants because of high unemployment in their regions. Some work fare participants have been cut off of public assistance due to noncooperation with the work fare program. Often, this noncooperation has arisen from the same kinds of complications that keep them from being employed. One example we heard was the need to be at home when a 9-year old mentally retarded child returned from school.

At the same time, some States and counties have heard very positive comments from work fare participants. Many participants express a strong desire for work. Some feel they are getting training and experience that will enable them to move on to permanent employment.

The real test of the Work Fare Program should be the validity of that hope. Are work fare participants moving into permanent employment with adequate wages to raise the family income above the poverty level. If a particular Work Fare Program is successful in meeting this objective—and it seems the one in Massachusetts that we heard of this morning is successful—what aspects of the program are having this positive effect?

While the FCNL supports some work-related strategies, we do oppose mandatory work fare because most such programs do not provide the training and supports needed to make a transition into the job market. And also they exclude people from basic survival assistance when they, or members of their family, do not conform to the rules of the program. We feel this is an unjustifiably heavy-handed sanction.

Another approach is to offer work incentives. But the work incentives that have been built into the food stamp and other programs so far are neither generous nor broad enough to actually reward a recipient for taking a job. This point has been referred to in some earlier testimony.

The graphs on page 4 of my testimony illustrate that a single mother of two in Pennsylvania experiences a significant drop in income when she takes a low paying job. If she is going to work her way out of poverty, she will need a job that pays significantly more than most entry level jobs available to unskilled people.

The top chart, Senator, shows what happens to the income of a person starting out in the first bar with no earned income. And then the various levels written along the bottom are the income levels that might be earned. At $6,000, which is approximately a minimum wage job, the take home pay, or the disposable income, is $4,628. That is a considerable drop from what was available with no job at all. You have to get way over to $10,000 before you have made a significant increase in your income.

The work incentives do cushion the income fall when a householder begins employment. And they should be left in place for that reason. The second graph on page 4 shows what would happen if we did not have the work incentives we have right now; if, in other words, when you went to work, you lost all benefits of AFDC, food stamps or any other help. It would be a severe drop in income.

These work strategies have been largely unsuccessful in moving families with employable heads of households permanently out of poverty. But the objective still seems to be a good one. If employable heads of households could establish a stable connection with the labor market, earning sufficient wages for the support of their families, they could move their families permanently out of poverty. The question is what gets in the way of this employment for these households?

There are a number of obstacles, not the least of which is the lack of jobs. I am sure this committee is well aware of the regional differences in the economic recovery in the country. That has been referred to also in several people's testimony today. Some areas of this country have not recovered at all.

Some of the other obstacles to employment include inferior education, lack of job training, racial discrimination, discrimination against women, and lack of affordable child care.

Finally, the fact is that many full-time jobs simply pay too little to maintain a family above the poverty line. Approximately 8.5 percent of poor households are headed by persons who are working full time year round. Yet the earned income of this group—that is about 2.2 million households—is insufficient to meet the minimal needs of their families.

While low pay is not in itself an obstacle to employment, it is definitely an obstacle to working one's way out of poverty. So what can be done to move past these obstacles?

There are several specific points at which the Food Stamp Program intersects with employment strategies that are specifically designed to overcome some of the obstacles and barriers described above.

Both government and private organizations, for example, offer basic and specialized education programs and classroom and on-the-job training programs. Public assistance programs, including food stamps, should be designed to facilitate participation in such efforts.

We recommend that full-time participation in education and training programs be recognized as work, and that participants who are otherwise eligible for food stamps not be excluded on this basis from the program.

In the area of child care, we recommend that actual child care costs be recognized as a deduction from gross income in figuring eligibility and benefit levels. Obtaining child care is a cost of getting a job, and the amount that is allowed in the program right now is a total of $134 per month for both child care and unusual shelter costs. That is remarkably low. As a parent, I know we have to pay much more than that.

In order to encourage unemployed families to relocate if necessary to obtain employment, we also strongly recommend that the nationwide availability of food stamps be maintained. We recommend that the Food Stamp Program retain its income supplement role in the work incentives, and continue to make limited amounts of assistance available to low-income workers regardless of the length of their employment.

The objective of the program should be to help move people out of poverty, not merely to get them off the roles of the various public assistance programs. The problem of poverty will continue to nag at this country's conscience until a serious comprehensive strategy is adopted to end it. The Food Stamp Program can play an important part in that effort. But in order to help end poverty, the program must be designed with that objective in mind.

The second topic I would like to take up is the block grant proposal.

The policy of the Friends Committee does not favor Federal over local or State programs as a matter of principle. We have to look at each one of them on the merits. The question for us is this: What levels of government can best perform the appropriate government role in helping to bring poverty to an end? We do not think that that role is confined to government by the way. We think there is a definite private role also.

We consider a couple of philosophical points and several practical ones.

Among the philosophical points, we agree with some previous speakers that poverty is a national problem. We see it as a product of the national economy and something that can be handled much more easily at the Federal level.

This relates to one of the practical points that we have which is that direct Federal funding for the Food Stamp Program is essential as a means of responding to regional differences in economic trends. When a State or regional economy suffers, the tax base for that State also suffers. Just when the need for cash assistance and support services are at their peak, the revenues available to that State are at a low point. The Federal Government can temporize some of these differences and help struggling States to get back on their economic feet.

We feel that the flexibility of the Food Stamp Program would be severely restricted by a block grant approach. The clear intention of the administration's block grant plan is to replace the food stamp entitlement program with a "finite funding of the nutrition assistance grant." Any flexibility gained by the States during the fiscal year in this arrangement would have to come directly out of benefits now available to food stamp recipients.

The nationwide program also provides certain assurances of eligibility and benefit levels. Despite the many dramatic differences among States in the administration of the AFDC Program, eligibility for food stamps has remained a constant across State lines.

If the program were made into a block grant, many States would be likely to limit eligibility to the pattern that they have allowed for AFDC. For about half the States, that means that two-parent families are likely to be ineligible for assistance. We think this would be a step backward.

Finally, the nationwide Food Stamp Program, with its broad eligibility and national standard benefit levels, has been effective in addressing the national problem of hunger. The Physicians' Task Force on Hunger is one group that has provided us with long-term evidence on this. There is no reason to restructure or radically modify the Food Stamp Program at this time. We have an effective program in place and should keep the structure as it is.

We conclude that the following is an appropriate division of government responsibility for assistance to the poor, particularly through the Food Stamp Program:

Assistance needed for basic survival should be provided on a nationwide basis.

Eligibility standards should make the Food Stamp Program available to all who meet income guidelines, regardless of family status. The Food Stamp Program should be accessible nationwide on the same basis.

And minimum benefits should be uniform nationwide, according to adjusted income levels. They should be sufficient to provide adequate nutrition for a family.

States and local governments should be able to expand eligibility and supplement benefits and services to meet local needs.

When the Federal Government provides programs sufficient to meet the survival needs of the poor, the State and local governments are free to explore and implement long-term solutions to poverty. Recognizing and addressing hunger does not require local expertise. But State and local governments do have special knowledge of local industry and local civic, community and religious organizations. Working on this level, State and local governments have a special opportunity to move beyond the challenge of survival and to take up the challenge of finding an end to poverty in their own area. The most useful kind of flexibility lies in partnership among the various levels of government and between government and the private sector. Each has an appropriate role and the Federal Government's role provides a solid base for other efforts.

Thank you. That concludes my remarks.

Senator BOSCHWITZ. Thank you Ruth. We stand adjourned.

[Whereupon, at 12:55 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF HON. BOB DOLE,
A U.S. SENATOR FROM KANSAS

This year is an important one for the Food Stamp Program, because it is up for reauthorization, in conjunction with the 1985 farm bill. This is the first food stamp hearing to be held in the agriculture committee this year, although we have a very comprehensive hearing record from other years, which should help us in our consideration of food stamp program issues during the reauthorization process.

Unlike previous years, when we were dealing with significant budget reductions of about $2 billion in 1981, and nearly $900 million in 1982, budget issues no longer dominate the policy debate for the Food Stamp Program. By trimming the upper eligibility ranges of the program, implementing administrative reforms, and going after fraud, waste and abuse, we were able to achieve about $7 billion worth of savings for the fiscal period 1982-1985. These budget reductions were designed by the Congress on a bipartisan basis--not the Reagan Administration, as many have claimed.

It is now time to take a look at the program from another perspective--we need to make certain that it is working effectively--that low-income Americans who depend upon this program for food assistance are being reached, and that benefits are adequate.

Budget Issues for fiscal year '86 and Beyond

The Senate-passed budget resolution has included savings of $78 million for fiscal year 1986, $155 million for fiscal year 1987, and $224 million for fiscal year 1988. I believe that this level of savings can be achieved without doing anything to the program that will mean benefit reductions for recipients.

In its deliberations on the first concurrent budget resolution this year, the Senate leadership set out with a firm policy not to reduce the deficit by cutting benefits in low-income programs. We believe that enough has been done in this area already during the reconciliation process in 1981 and 1982. Food Stamp Program cuts were very carefully designed in accordance with our responsibility to this country's needy, as well as the American taxpayer.

Domestic Food Assistance Act of 1985

Along with my colleagues, Senators Boschwitz, Leahy, Andrews, Danforth, and Hatfield, I have introduced S. 1142, the Domestic

Food Assistance Act of 1985 which extends the Food Stamp Program for four years. This reauthorization legislation fulfills the savings requirements of the Senate-passed budget resolution, but we are also able to increase benefits primarily for the working poor. This is achieved by raising the earned income disregard from 18 percent to 20 percent.

Most of the savings are achieved by requiring States that charge a sales tax on food return the food stamp funds collected in this manner to the Federal treasury. States have been getting free revenue ride off the program for a long time at the expense of needy food stamp recipients. States sales taxes erode the purchasing power of food stamp recipients by over $125 million a year.

Further, S. 1142, has many non-cost provisions, patterned after recommendations of the President's Task Force on Food Assistance, which would enhance accessibility to the program for those who meet the eligibility criteria. At the same time, we are able to meet the constraints of the Senate-passed budget resolution. We believe that the Domestic Food Assistance Act of 1985 represents a responsible approach to Food Stamp Program reauthorization this year.

This legislation achieves savings beyond the required level--$79 million in fiscal year 1986, $189 million in fiscal year 1987, and $234 million in fiscal year 1988. All of this is done without reducing benefits to recipients, and, in fact increasing benefits for some program participants.

Balanced Approach to Reauthorization

There are other food stamp bills pending before the Committee. The Administration has submitted its reauthorization provisions, the Chairman has a very comprehensive bill, and Senator McClure has introduced a similar measure. The Committee has many options for consideration when it finally completes the farm bill mark-up and turns to food stamps.

It is the intention of this Senator to protect this program from policy changes that would translate into benefit reductions for recipients. I believe that the Food Stamp Program is, in many ways, as important as Social Security. It is our responsibility to make certain that it is working well to provide adequate food assistance to low-income Americans.

STATEMENT OF JOHN W. BODE
ACTING ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES,
U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, and Members of the Subcommittee, thank you for inviting me to appear before you today to discuss the Administration's budget and legislative proposals for fiscal year 1986. We look forward to working with you in the coming months as we continue to provide food assistance to those in need and reduce unnecessary government spending.

I am accompanied today by Mr. Virgil Conrad, Deputy Administrator for Family Nutrition, Food and Nutrition Service, USDA.

Before discussing the Administration's legislative proposals, I would like to take this opportunity to give the Committee a brief update on the status of the Food Stamp Program.

First, the program is projected to spend approximately $11.8 billion this year in providing food assistance to 35 million low-income Americans. Monthly participation is expected to average 20.2 million. Research recently completed by the Urban Institute indicates that the Food Stamp Program remains exceptionally responsive to economic conditions following the reforms of 1981 and 1982. Every needy American has access to the program, and record numbers of people have been provided benefits when economic conditions warranted. We remain cognizant of the fact that accomplishment of the management improvements we are striving for are laudable only so long as timely program services are maintained for those in need.

Although the administration of the Food Stamp Program still has significant room for improvement, I am proud to inform the Committee that it is better run today than ever before. This is a result of implementation of the legislative reforms of 1981 and 1982 with improved teamwork and accountability.

Our special effort to improve teamwork in administering the Food Stamp Program is a broad technical assistance initiative called Operation Awareness. Operation Awareness entails several activities. For example, we publish State to State, our technical assistance magazine that contains many articles on the management successes that State and local governments have achieved. Similarly, we have produced a Catalog of Program Improvements which is now being updated. Administrators across the country have told us that this catalog is a gold mine of ideas and innovations. Also, our State Exchange Program has become popular. And, of course, specific technical assistance projects are underway in each of our seven FNS regions. They include the following initiatives developed with the technical assistance of Food and Nutrition Service personnel:

- a computer program to analyze recipient claims and collections data and provide these analyses to Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, and Washington, along with tips to improve performance. Collections in all States increased from fiscal year 1983 to fiscal year 1984.
- error reduction initiatives for Houston, Texas; New Mexico and Oklahoma, including data analysis techniques to identify error prone cases and specific training to implement actions.
- an interstate match of casefiles among Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee in search of duplicate participation across State lines. FNS worked with all States to work out cooperative agreements and data file formats.
- programs to assist States in analyzing quality control data with special emphasis on those factors which cause the highest dollar errors. Specific error reduction techniques

have been recommended and implemented in Delaware, the District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, the Virgin Islands and West Virginia.

- o personal computer based programs to handle food stamp certification and issuance. Several are presently being implemented in Dakota County, Minnesota.
- o a personal computer based recipient claims resorting and tracking system which tracks the status of claims, accounts for payments and prepares reports. The District of Columbia implemented this system, and other States are considering it.
- o a certification error reduction project involving investigative interviews, improved case management and enhanced supervisory reviews which has been adopted by Alabama, Florida, Mississippi, and South Carolina.
- o FNS identified specific problems in Rhode Island's recipient claims system and assisted in installing a centralized claims handling unit to correct them.
- o development and production of a standardized handbook and review format for State reviewers in targetting management evaluation reviews in Colorado, Iowa, Kansas, Missouri, Nebraska, North Dakota, South Dakota, Utah, and Wyoming.

Our push for improved accountability in the Food Stamp Program is an effort to place resonsibility at the level where problems can be most effectively addressed. In Food Stamp Program management, one cannot escape the most basic underlying characteristic of the program design: Benefits are Federally funded while States administer the program with shared administrative funding.

Due to this characteristic, States invariably have a very modest amount of funding invested in the Food Stamp Program. As a result, State policymakers are under significant pressure to put other programs ahead of food stamps when setting priorities. Not that these officials want to encourage waste or error. I am confident that the opposite is true. However, State officials have to set priorities. When States use their own tax dollars to run programs, they are naturally more interested in how those programs are managed. This interest extends from the Governor and the legislature, to the Commissioner and right on down the line.

To help build a strong State interest in prudent management of the Food Stamp Program, we are committed to a strong error rate liability system. States are in the best position to prevent errors. Our liability system establishes a modest fiscal incentive for them to do so.

This combination of teamwork and improved accountability has enabled us to achieve dramatic progress in the management of the Food Stamp Program. Nationally, between 1981 and 1984:

- o Mail issuance loss rates have been cut by over two-thirds (to .32 percent),
- o ATP issuance loss rates have been cut by over two-thirds (to .05 percent),
- o Fraud claim collections have almost quadrupled (to $11.1 million),

- o Almost six times as many people were disqualified for fraud,
- o And, of course, through 1983, our 15 percent reduction in the overpayment error rates is an unprecedented decline that has saved the taxpayers nearly $200 million.

Unfortunately, this progress is far from sufficient. With errors that result in the misexpenditure of about $900 million a year, much room for improvement remains.

Against this backdrop, the Administration has proposed legislation, introduced as S. 969, which will reauthorize certain programs, adjust State and Federal roles in the Food Stamp Program, reflect the work ethic in the Food Stamp Program, and strengthen program integrity in certain programs.

Reauthorization of Certain Programs

The Administration's legislative proposal will extend the Food Stamp Program through fiscal year 1989. In addition, it will extend the Puerto Rico Nutrition Assistance Program, the Commodity Supplemental Food Program and commodity distribution authority for institutions, disaster areas, summer camps, the Trust Territories, and Indians through fiscal year 1989.

Adjusting State and Federal Roles

For the Food Stamp Program, we are proposing to offer States greater flexibility in administering the program through the Administration's legislative package. It includes an Optional Nutrition Assistance Grant Program which would operate in lieu of the Food Stamp Program. A State which chooses this option will receive funding equal to its administrative grant under a second proposal which I will describe, plus the value of benefits issued in the State during the preceeding year. Benefits would be adjusted on the basis of changes in food prices and unemployment levels as well as any other factors established by the Secretary. The State can use each year's funds either in the year they are provided or during the next year.

A State which chooses this option will submit a plan for the Secretary's approval, and will have considerable latitude in designing its program. There will be an assessment of the food and nutrition needs of the State's low-income residents and a description of the assistance to be provided and the people to be assisted. The plan will require the States to assure that assistance is provided to the States's most needy residents.

Under the proposal States will have an opportunity to design a food assistance program for low-income persons that meet local needs more effectively and efficiently than the current Food Stamp Program. We strongly urge adoption of this provision.

We propose to establish a State Administrative Grant set at $840 million in fiscal year 1986 to be distributed proportionately to States based on their 1984 shares of Federal administrative costs. This plan will replace the present open-ended entitlement to States for administrative costs which has various matching rates for different activities. The Administration is making similar proposals to finance the administrative costs of AFDC and Medicaid. Subsequent annual adjustments to these grants

will be indexed to the Gross National Product Implicit Price Deflator. We expect fiscal year 1986 savings to be about $40 million over the current law due to the proposal to freeze funding in fiscal year 1986 at the estimated fiscal year 1985 level.

By eliminating complicated funding formulas, program administration will be simplified. Further, these grants will create stronger incentives for States to improve managerial practices because any savings will directly reduce State costs without affecting Federal grants. Finally, substituting a grant for the current open-ended entitlement for administrative funding will help control Federal expenditures.

We think it is essential at this time to mandate stronger State incentives for the control of administrative costs. We believe that $840 million represents a generous Federal fiscal commitment to program administration. A block grant is more likely than an open-ended entitlement to provide incentives for effective program management.

Reflecting the Work Ethic in the Food Stamp Program

We propose to establish greater emphasis on the positive value of work experience and employment by mandating that States establish a work program which incorporates the operation of the Job Search and Community Work Experience Program (CWEP). Our proposal will allow States to phase in CWEP over a three-year period. They will place a minimum of 25 percent of the employable caseload in CWEP in the first year, 50 percent in the second year, and 75 percent in the third year.

This change is compatible with AFDC legislation, thus offering the prospect of compatible work requirements between the two programs.

CWEP is now an option in both the Aid to Families with Dependent Children (AFDC) Program and the Food Stamp Program. However, it has been much more widely implemented for AFDC than for food stamps. Part of the reason may be that States share in the benefit savings achieved through AFDC CWEP programs. Because of our program's funding structure, States don't save State benefit money if food stamp rolls drop because of CWEP.

Let's look at the difference between current AFDC and food stamp CWEP implementation. Fifteen States have AFDC CWEP programs. In additon, several States have CWEP components in their WIN demonstration projects, or under other authorities, so about half of the States have AFDC CWEP in some form. Compare that with the Food Stamp Program. A total of 17 counties and cities in nine States have food stamp CWEP programs. No State approaches a statewide CWEP program. Without question, there is a striking difference in work experience program implementation.

From this, it is clear that CWEP can be effectively implemented on a broad scale. Also, it is clear that the food stamp program structure does not offer incentives of sufficient strength to overcome bureaucratic inertia and advocacy group opposition. These factors stand as major obstacles to implementation of optional CWEP in the Food Stamp Program, even in areas receptive to the modest incentives offered by the AFDC program. It is only right that some percentage of the work eligible food stamp recip-

ients in each State return some service to their community in exchange for the assistance they receive. This is particularly true in light of the fact that those who participate in CWEP activities tend to move off the food stamp rolls and into regular employment more quickly than they would otherwise.

To complement these changes and to provide an appropriate financial inducement, we are proposing a separate grant set at $92 million to State agencies to assist them in establishing work programs. Funding will increase to $240 million as the percentage of the employable caseload for which States are required to provide CWEP assistance increases from 25 percent to 75 percent.

Based on the experience in the AFDC program and related demonstrations, it is our strong conviction that mandatory CWEP will benefit both program participants and communities. Able-bodied food stamp recipients will have the opportunity to perform useful work and therefore benefit by making a contribution to their communities and by enhancing their sense of self-worth. Communities will derive benefit from their work. Individuals on the program will be introduced to the work environment, given the opportunity to acquire work skills, and will be encouraged to find regular employment. The existence of a CWEP and Job Search requirement will act as a deterrent to Food Stamp Program participation of those able-bodied individual who can work but do not choose to do so. Because CWEP will help persons to move out of the Food Stamp Program and into productive employment and because it will deter from participation those able-bodied individuals who do not want to work, this proposal will save an estimated $16 million in fiscal year 1986, and savings will increase to $58 million in 1990.

Strengthening Program Integrity

We believe several changes are needed to make the Food Stamp Program stronger and more effective.

We propose to establish current regulatory policy on vendor payments in the law. We will include as income benefits provided to third parties on behalf of households by the AFDC program and by State and local governments, except that medical, energy, housing and child care assistance, as defined by current regulations will not be counted as income. The Secretary will be authorized to provide, by regulation, an exclusion for certain third-party payments for emergency and special assistance. While congressional intent as reflected in legislative history supports this policy, there have been court challenges which suggest that the policy should be placed in the statute.

We propose to establish a $50 annual fee for retailers and wholesalers authorized to accept food stamps. Fees from currently participating retailers will be due on October 1, 1986 and on each succeeding October 1. The fee will be due from new retailers immediately upon approval of their application and on each subsequent October 1. It costs the Federal Government over $14 million annually to authorize and supervise more than 230,000 firms. This proposal will restore most of that expense. This nominal user fee will acknowledge the benefit retailers gain from participating in the Food Stamp Program.

A further proposed amendment will prohibit the authorization of disqualified stores following sales or other transfer unless the appropriate penalty has been paid. Presently, some stores are evading disqualification by transferring ownership. We believe it is essential to stop this circumvention in order to maintain the Food Stamp Program's integrity.

Finally, we propose to prohibit the authorization of new Commodity Supplemental Feeding Programs in areas where WIC Programs are in operation. Currently, both programs can operate in the same area, but individuals are barred from participating in both programs. This proposal will reduce the need to police dual participation and thereby prevent program abuse.

That concludes my statement, Mr. Chairman. I will be happy to respond to any questions or comments from Members of the Committee.

STATEMENT OF CHARLES M. ATKINS
COMMISSIONER, MASSACHUSETTS DEPARTMENT OF PUBLIC WELFARE

Chairman Dole, subcommittee members, thank you for the opportunity to testify before your committee. Although I will concentrate on employment and training programs for public assistance recipients in my oral testimony, I thought it was important to submit written testimony on the wide range of issues to be considered in the Food Stamp Act reauthorization.

The Food Stamp Act of 1964 recognized a widespread and dangerous problem--that individuals and families subsisting on incomes which classified them as in poverty were financially incapable of meeting the basic human need of purchasing food for their families. The need is just as real today. Reports indicate that hunger and malnutrition are on the rise in some communities in Massachusetts, and across the nation. The Food Stamp Program remains the single most important government program aimed at reducing hunger and malnutrition among the nation's poor.

The Massachusetts Department of Public Welfare, which administers the Food Stamp Program in the Commonwealth expects to serve over 140,000 households this year (Federal fiscal year 1985). The over 340,000 individual recipients that are members of those households will receive benefits totaling $170 million. This assistance is vital to those low income families. Even with their benefits, however, the incomes of many of these households will still be far below the national poverty level. For example, an AFDC family in Massachusetts with no other income currently receives a monthly AFDC grant of $396, plus a food stamp allotment of $157, for a total monthly income of $553. This monthly income, which is the maximum the family can receive from AFDC and the food stamp program, is still $152 below the Federal poverty level. Any decrease in food stamp benefits would cause these families to sink even deeper into poverty.

Among all Massachusett's food stamp households, including the working poor as well as AFDC recipients, average food stamp bene-

fits are slightly over $100 per month, or approximately 46 cents per person per meal. With benefits so meager, we frequently hear from soup kitchens and food banks that, toward the end of every month, they serve large numbers of food stamp recipients whose monthly benefits have run out.

Therefore, we are concerned that there continue to be regular cost-of-living increases in food stamp benefits. In Massachusetts, over the last two years, we have attempted to update AFDC benefit levels to at least keep pace with increases in the cost-of-living. Unless food stamp benefits are also updated, however, AFDC recipients who receive cost-of-living increases find that decreases in their food stamp benefits offset part of the AFDC increases and that their spending power actually declines over time.

I would like to use this opportunity to testify by highlighting a few issues of importance to food stamp recipients in the Commonwealth and to the state agency charged with administering the program which you are about to reauthorize.

First, on the benefit side, the Commonwealth strongly supports the proposal to separate the excess shelter and dependent care deductions available to recipients. In Massachusetts over 56 percent of our food stamp caseload spend more than $134 excess shelter/dependent care cap, mostly due to high housing and utility costs. This deduction is an essential feature of the program in maintaining the food purchasing power of recipients in Massachusetts and other states where the cost-of-living is high.

As excess shelter deduction of $150 along with a child care deduction of $160 (consistent with the AFDC program) are recommended. This recommendation is consistent with the policy positions of the American Public Welfare Association and the National Governor's Association.

The second issue I would like to raise is the issue of quality control. Like many other states, Massachusetts is above the target error rates of 5 percent for the food stamp program. This is despite the fact that we are the first state to have issued photo identification cards statewide and have aggressive computer matching programs. This 95 percent accuracy rate we are held to is already much higher than that required of other public agencies. In fact, the Internal Revenue Service recently reported that it catches 82 percent of earned income through the tax system--if they were a state welfare agency that performance would give them an alarming 18 percent error rate!

Despite these stringent standards, state error rates have dropped dramatically. We believe this is in large part due to a year of relatively few changes in food stamp law and regulation and urge the committee to keep the effect of various changes on the error rate in mind during the reauthorization. When workers have to be retrained to adapt to frequent policy changes and when the program is in constant flux, there are bound to be more errors. Food stamp error rates are higher than AFDC and Medicaid in nearly every state due to these regulatory and program changes, as well as the inconsistent definitions between Food Stamp and AFDC, particularly the differences in household composition, resource limits, and countable income (for example,

the counting of Pell grants). We need your help to run this program efficiently--administrative consistency between the Office of Family Assistance and Food and Nutrition Service will do a lot more to bring down the error rate than raising the quality control sanctions against the states.

If any changes are made to the quality control program for food stamps, I recommend that they be along the lines of the Jeffords bill in the House (H.R. 2621), which would improve the use of the QC system as a management tool rather than a mechanism for assessing penalties. Among the features I endorse are: setting the state's error rate as the lower bound of the confidence interval for the sample, adjusting the tolerance level for demographic characteristics and allowing the states to invest potential sanction amounts toward corrective action for error reduction.

An example of the dilemma states face in error reduction is illustrated by last year's Deficit Reduction Act (DEFRA) which made a number of changes in public assistance programs. Recognizing the difficulties states face in implementing these changes, the Department of Health and Human Services (HHS) established a one-year moratorium on sanctions resulting from DEFRA implementation errors. But despite the fact that some provisions of DEFRA, such as the disregard of the first $50 in child support income for the purposes of the AFDC grant but not for food stamps, will cause errors in the Food Stamp Program, FNS has consistently refused to grant state administrators the same considerations. Forgiveness of errors for a one-year implementation period is almost moot issue now, since it has been nine months since the enactment of DEFRA. I believe, however, that the counting of this new $50 child support incentive as income in food stamps at all is counter-productive. The $50 payment was designed as an incentive to get public assistance recipients to cooperate with the child support enforcement program. Reducing this incentive by one-third by counting the payment for Food Stamps sends confusing message to young mothers who we are trying to reach in the child support program, as well as being one of the most error-prone features ever added to the Food Stamp Program.

Another area related to error rates that state administrators think is important in the reauthorization is the issue of monthly reporting/retrospective budgeting (MRRB). For the vast majority of recipients MRRB simply does not make economic sense; the administrative cost of processing monthly reports outweigh the potential welfare savings which may be obtained. Also by unnecessarily diverting limited administrative resources to handle MRRB, this requirement detracts from the ability of states to manage the Food Stamp Program efficiently and reduce benefit errors. In addition to these administrative concerns, retrospective budgeting puts an undue hardship on clients who lose other sources of income since there is a delay of two months until their food stamp benefit levels can be adjusted to compensate for their drop in income. For these reasons, we do not believe monthly reporting and retrospective budgeting should be mandatory.

I also want to include a few paragraphs in this written testimony about the issue I will be discussing in my oral remarks. I welcome the opportunity to introduce the committee to a program in Massachusetts called the Employment and Training (ET) CHOICES program. Run under the Federal WIN demonstration authority for AFDC, this program recently placed its 16,000th graduate into unsubsidized employment.

The differences between our approach and the one proposed in President Reagan's fiscal year 1986 budget is simple--our program is a client-centered, outcome-oriented program. It is client-centered in that we offer participants a wide range of choices in pursuing their career objectives. It is outcome-oriented in that we aim for and track items such as entry into employment (over 16,000 to date), average wage rates (over $5 per hour or $9,800 annually for full-time workers), job retention statistics (85 percent after 30 days), and the availability of medical benefits (70 percent of ET placements).

On the other hand, the Reagan proposal stresses job search and community work experience at the expense of education and training opportunities that we have found are vital to this population. Under their proposal a state could place all recipients into job clubs or make-work jobs in the public sector and never place one person into unsubsidized, private sector employment--and that state would be in full compliance.

We do not think this is the right way to go in any public assistance program. In food stamps, where most recipients are covered by the applicable work rules of their basic public assistance grant, or in the case of the NPA caseload, are often working at low paying jobs or actively involved in job search through the rules and requirements of the unemployment compensation system, this approach seems even more unwise. If a work requirement is adopted, we believe that states should have the authority--and the funding--to operate employment and training programs consistent with the ones that are running for AFDC recipients.

I would also like to take this opportunity to go on record in opposition to the optional block grant proposal that is before your committee. I have attached a copy of Governor Michael Dukakis' recent letter to Senator Helms, which outlines the reason for the State's opposition to the proposal.

In addition, I would also like to indicate my opposition to block granting funds for the administration of the food stamp program. As the proposal was outlined in the President's fiscal year 1986 budget, the amount of the block grant would be based on fiscal year 1984 expenditures. However, my Department is in the process of developing what we call the Massachusetts Public Assistance Control System (MPACS)--a computerized eligibility system which we believe will achieve great savings in all public assistance programs. In food stamps, the savings would be 100 percent Federal dollars. However, the administration block grant proposal would necessitate total state funding of the system, since computerization expenditures would fall above the cap. Under this approach there would be no incentive to include food stamps in the coordinated eligibility system. I urge that the

committee reject the administrative block grant and consider raising the match for computerization from 75-25 to 90-10 as it is in Medicaid and AFDC.

Thank you for allowing me to share these concerns with the committee and thank you for your support of the Food Stamp Program. If you have any questions, I would be happy to answer them.

June 3, 1985

The Honorable Jesse Helms
U.S. Senate Committee on Agriculture,
Nutrition, and Forestry
402 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Senator Helms:

You recently wrote to me asking for my response to the optional block grant proposal contained in the food stamp reauthorization bill, S. 616.

I categorically oppose, as does the National Governors' Association, any efforts to transform the Food Stamp Program into a block grant. I strongly believe that it is the role of the Federal Government to provide for a basic level of life's necessities, including food assistance, to our nation's needy. The uniform benefit standard and the entitlement nature of the program allows it to fulfill its mission of providing benefits to the nation's hungry regardless of geographic location. Moreover, because it is an entitlement program, Food Stamp benefits are immediately and automatically adjusted to account for the increased need for food assistance caused by downturns in the nation's economy. An optional block grant would represent a step in the wrong direction in terms of a national income security policy and could lead to substantial inequities in nutrition assistance between states.

One final comment on the optional block grant proposal. My experience as the Governor of the Commonwealth tells me that, for this Administration, block grants are typically accompanied by substantial reductions in funding. I am, therefore, skeptical of attempts to block grant the program since, if past history is a guide, it will inevitably result in reduced Federal funds to support food assistance for the needy.

In addition to my comments on the block grant proposal, I wanted to take this opportunity to share my views on other provisions contained in S. 616. I strongly oppose provisions of the bill which would lower food stamp benefits and make it more difficult for the poor and the near-poor to qualify for assistance. Among the provisions which would have particularly drastic consequences for the poor, S. 616 would reinstitute the purchase requirement, further delay the indexation of benefits, and lower the gross income eligibility standard.

It is difficult to justify such cutbacks in light of the severe impact which the 1981 Budget Act has already had on food stamp recipients. Likewise, evidence from the Commonwealth and across the nation indicate that hunger persists as a serious national

problem. Rather than further reducing food stamp benefits, I would urge the Congress to consider benefit expansions, such as those proposed by Representative Panetta in H.R. 2422, which would help to restore food stamp benefits to our nation's hungry.

I am also concerned about the provisions of S. 616 which would require food stamp recipients to participate in mandatory workfare/Community Work Experience Programs (CWEPs) as a condition of eligibility. Such an approach fails to recognize that training and support services are critical components in a successful employment strategy. In Massachusetts, we have incorporated these elements into our employment and training program for AFDC recipients (ET CHOICES). ET CHOICES has met with remarkable success as over 15,000 recipients have been placed into jobs over the first year and a half of program operation. Rather than increasing the employability of food stamp recipients, the workfare/CWEPs approach would discourage recipients from seeking needed food assistance.

Finally, S. 616 would substantially increase quality control sanctions on states, by expanding the base on which QC sanctions are assessed and imposing these penalties prospectively. States already have adequate incentive to reduce errors in income maintenance programs and, in fact, significant progress has been made in reducing errors in the Food Stamp Program. Rather than addressing the flaws in the present QC system, S. 616 would only serve to shift additional costs for this national responsibility to state governments. Cost shifting of the magnitude proposed in S. 616 would lead to reduced services for the disadvantaged.

Thank you for this opportunity to respond to this Food Stamp legislation.

Sincerely,

Michael S. Dukakis

STATEMENT OF ROBERT FULTON, DIRECTOR OF
OKLAHOMA DEPARTMENT OF HUMAN SERVICES

I appreciate the opportunity to provide comments on policy issues related to the USDA Food Assistance Programs and especially issues involved in reauthorization of the Food Stamp Program.

Federal-State Partnership

As you know, the Food Stamp Program can only reach its optimal effectiveness if the Federal and State Governments work together in an effective partnership in order to improve policies and administrative arrangements. In this regard, I have some concerns about the trend toward an adversarial relationship by the Federal Government toward the states in the administration of human services programs. The constant battles over quality control fiscal sanctions have done real damage to the Federal-State partnership. The Congress itself is largely responsible for this as you have continually lowered error tolerances and have intensified pressure on USDA and DHHS to take money away from states which fail

to meet the established error reduction goals. But the weakening of the Federal-State partnership goes far beyond quality control error sanctions. It has been reflected in such things as insensitivity to the adverse impact on state administration of frequent changes in Federal regulations. USDA has been particularly guilty of overloading the system with frequent changes, many of them of marginal value.

I must hasten to add, however, that I see numerous hopeful signs in the way USDA is now beginning to work with the states and especially in its efforts to work with DHHS to better integrate policies and procedures for food stamps and cash assistance programs. I won't dwell further on these matters now, but would like to submit for the information of the Subcommittee an article Ray Scott, my counterpart in Arkansas, and I wrote recently about the deterioration of the Federal-State partnership.

Oklahoma Department of Human Services

First, let me tell a little about the Oklahoma Department of Human Services which administers the food stamp and commodities programs in our state. DHS is the state's largest agency, with a total annual budget of about $1.1 billion. Approximately 43 percent of the funds expended by DHS come from the Federal Government. The $1.1 billion expenditure figure does not include approximately $160 million in food stamp and commodity values we distribute each year.

Attached to this statement is a summary of DHS expenditures in recent years, our current estimate for fiscal year 1985 and our budget request for fiscal 1986. We have shown at the bottom of this table the value of food stamps and commodities distributed in each year.

The Food Stamp Program in Oklahoma

In 1981 and most of 1982 when most states were suffering from serious economic problems, Oklahoma was in the midst of the oil boom and had the lowest unemployment rate in the nation. Food stamp rolls were low and stable. In late 1982 and 1983, the bottom dropped out of the oil and gas business and recession set in. Oklahoma began to face serious economic conditions. Monthly unemployment rates jumped from a low of 3.1 percent in 1981 to 10.1 percent in 1983 and then declined to the current 7 percent, very close to the natonal average. The deteriorating economic conditions are reflected in the growth in average monthly enrollments and coupons distributed by the food stamp program in Oklahoma as follows:

Year	Households	Persons	Dollar Value
1981	76,001	188,072	$ 6,092,978
1982	76,060	188,250	$ 6,100,308
1983	92,265	246,127	$ 9,277,432
1984	97,750	261,382	$10,052,646
1985	101,205	267,094	$11,310,141

Represented in the current food stamp caseload are about 20,000 elderly households with an average benefit of $13; however, 15,000 of these household received only $10. There are 15,500 AFDC household representing 51,000 persons with an average benefit of $182 per family.

The food stamp and commodities programs administered by the Department of Human Services provide about $160 million a year in benefits to hundreds of thousands of Oklahomans. Clearly, the Food Assistance Programs have had a substantial impact in preventing hunger and reducing malnutrition.

As in all programs, there is room for improvement. I want to turn now to some of our concerns about the food stamp program as it now operates, recommendations for improving the program when it is reauthorized later this year, and our views on some of the proposals that have been made by members of Congress and the Administration.

Sales Taxes on Food Purchased with Food Stamps

I must register strong opposition to the proposal to require states to return to recipients or transfer to the United States Treasury revenue from sales taxes collected on food purchased with food stamps. Of course, the proposal to make ineligible for food stamp participation any state which taxes food purchased with food stamps is even more unacceptable. Since the late 1930's Oklahoma has had a two percent sales tax which is the primary sources of state funding for the operations of the Department of Human Services. An additional temporary one percent state-wide sales tax, adopted last year, goes to the general fund. Cities, towns and counties may vote additional sales taxes for use in the operation of local governments.

In Oklahoma, food stamp recipients get major benefits from sales tax revenues. To transfer to the Federal Treasury revenues on food purchases made with food stamps would, in fact, reduce services available to low income people from state and local government. Indeed, if such a transfer were required, Oklahoma could well be forced to cut medical and cash benefits for the poorest of the poor. In Oklahoma, the loss to State Government would be close to $4,000,000 per year. If any prohibition is to be placed upon sales tax revenues, cities, towns, counties and state governments must be given the time and opportunity to adjust and establish new or replacement revenue sources.

Work Programs

Oklahoma operates a highly successful work program for AFDC recipients. The program has several components including self-directed job search, structured job search, work orientation, direct job referral, and community work experience. We are in the process of adding grant diversion as an additional component in our program. Day care, transportation and other social services to assist individual in obtaining employment are provided. As a result of this work program, 6,000 AFDC recipients were placed in unsubsidized employment in fiscal year 1984. For fiscal year 1985, we raised our goal by 25 percent over the prior year--to 7,500 placements. It is clear we will either meet, or

come very close to, that difficult goal. I might add that our 1984 performance placed Oklahoma among the top four states in the country in terms of percentage of the average caseload placed in jobs.

Success in our AFDC job efforts of course has direct benefits to the food stamp program since increased income reduces the amount of stamps for which recipients qualify.

Based on the experience we have had in our AFDC work program, I believe the key components for getting food stamp recipients into jobs are structured job search and employment referrals. Many food stamp recipients have job skills and experience. They need work referrals.

I do not support mandatory workfare for the food stamp program. A report released recently by Manpower Demonstration Research Corporation on a work/welfare demonstration concludes that job search substantially improved the employment situation of single women on AFDC while workfare (work in exchange of benefits) did not. While we will continue to utilize community work experience to help some of our AFDC recipients gain experience and opportunities to demonstrate their readiness to work productively, I believe workfare will remain a relatively minor part of overall efforts to provide employment for low-income people.

Oklahoma currently receives USDA funding to offer job referral and job search to food stamp recipients in 10 counties. This effort got underway only very recently. Available USDA fundings enables us to provide job search and related support to only 45 percent of the food stamp recipients required to register for work in Oklahoma. We intend to deliver this new effort effectively, but are disappointed that USDA could not provide sufficient funds for a state-wide program. I wish we could expand the effort through use of state resources, but that will not be feasible in the foreseeable future, given our exceedingly tight budget situation.

Cash Out

Oklahoma currently has approximately 27,000 food stamp households receiving SSI benefits. The average food stamp benefit for these households is $13 per individual although more than two-thirds receive only $10.00. Administrative costs to USDA and the Department of Human Services could be greatly reduced if these households could receive cash in lieu of food stamps. Moreover, the availability of program benefits to elderly and disabled people would be improved by cash-out. In Oklahoma only 48 percent of SSI recipients participate in food stamps even though many who do not participate would be eligible if they applied. Apparently, a combination of the "hassle" of obtaining and using a small amount of stamps, as well as the stigma associated with them, keeps participation low. I urge that states be given the option of cashing out food stamps for SSI households.

Categorical Eligibility and Oklahoma's Simplified Application Project

We are strongly in favor of categorical eligibility of AFDC households for food stamps. Our Department is currently participating in a pilot project in which the amount of food stamp allotment is based on the income and resource definitions used for the AFDC and medical assistance (Title XIX) programs.

This demonstration project is proving that the Federal Government and the States can save a significant amount of administrative costs through categorical eligibility, common definitions, and reconciliation of other program rules.

On March 5th we received correspondence from the USDA rejecting our request for a 15-month extension of the Simplified Application Demonstration Project. Needless to say, we were extremely disappointed by this decision, and are making every effort to get USDA to extend the demonstration at least until Congress completes action on the reauthorization bill. Indeed, we would appreciate the support of the subcommittee for the extension of our demonstration project which we believe has important policy implications for the nation as a whole. Evaluation of Oklahoma's demonstration by Mathematica Policy Research, Inc. (under a contract with USDA) is not yet finished; however, the preliminary findings have been very encouraging.

Approximately $30,000 more in food stamp benefits per month (averages 36 cents per person) are issued to households under SAP than would be paid under the rules that would be applicable without the demonstration. These costs are more than offset by reduced administrative costs--more than $50,000 per month in salaries alone.

Workers have told us SAP is much easier to administer and saves lots of time. This is substantiated by random moment time sampling which indicates almost 75 percent less staff time is required to process food stamps for AFDC recipients under SAP. The last quarter before implementing the project (Jan.-March 1984) our field offices devoted 41 full-time workers to food stamp cases for AFDC recipients. For the last quarter since implementation (Oct.-Dec. 1984) only 11 full-time equivalents were engaged in this work. This is a monthly savings of more than $50,000 for salaries alone.

Also, data from Quality Control reviews indicate the error rate for project participants dropped from 5.54 percent in fiscal year 1983 to 2.23 percent in fiscal year 1984 which means substantial savings were achieved through error reduction. Termination of this food stamp demonstration project in Oklahoma will add to costs of the food stamp program for both the Federal Government and the State of Oklahoma. Moreover, the project's termination would deprive the Congress of the full benefit of a significant experiment integrating eligibility determinations across major programs intended to help low-income people. Ironically, this termination would occur at the very time Congress is considering reauthorization of the food stamp program and the possibility of making recipients of cash assistance categorically eligible for food stamps.

53-459 O—85——4

Need for Unified Federal Administration of Closely Related Programs

Administers responsibility for the food stamp and AFDC programs should be put in the same organizational component of the Federal Government. There would be a much better chance of standardizing policies toward the states, if the programs were administered by the same organizational component. I realize this is controversial and is not likely to be done soon. Nevertheless, it is a step that should, and I believe will, eventually be taken.

Optional Nutrition Assistance Grant

The concept of an Optional Nutrition Assistance Grant proposed by the Administration is very appealing to the State of Oklahoma because of the increased flexibility the states would have and the removal of the threat of quality control sanctions.

It appears, this option would allow Oklahoma the flexibility to modify and simplify the program as follows:

1. Have a standard household definition.
2. Use the same income and resource definition as in other assistance programs.
3. Enable us to raise AFDC benefits without causing an automatic decrease in food stamp benefits.
4. Cash out food stamps for the Aged, Blind and Disabled.
5. Issue food stamps, vouchers, or cash.
6. Get us out of the current morass over fiscal sanctions for quality control errors.
7. Have a state option that, if the Nutrition Assistance Grant proved unsatisfactory, we could convert back to the Food Stamp Program.
8. Make our own decisions on whether to utilize Monthly Reporting and Retrospective Budgeting.

There are a number of questions which remain unanswered or unclear which include:

1. Who would be responsible for the performance of the retailer functions currently handled by USDA FNS?
2. If a state used coupons for certain categories, could they be purchased at a cost of dollar for dollar or would the states be billed for: (a) printing?, (b) storage?, (c) transportation?, (d) redemption through the Federal Reserve System?, or (e) any other cost identified with the issuance of food coupons at the federal level?
3. What adjustments would be made in the block grant, and how quickly could they be made in the event of a sudden rise in unemployment or a major disaster of some sort? Oklahoma has had recent experience with sudden economic decline and we are quite concerned about protecting the low-income citizens of our state in such situations.

I realize that some of these questions will need to be answered in the implementing regulations by USDA. I urge, however, that Congress provide guidance, as well as flexibility, so that the block grant program does not become a cost containment mechanism, but truly an experiment designed to improve assistance to low-income families.

One change we would recommend in the legislation is that the time limit on expenditure of block grant funds be extended from twenty-four months to thirty-six months. This would give states a better opportunity to build up and maintain reserves against unforeseen sudden growth in program costs.

Subject to the caveats I have stated, we think the optional block grant would be a very constructive step in state-federal relations and that it would be of significant benefit to the low-income people of Oklahoma.

We support the proposed optional block grant as long as state participation is truly optional.

Administrative Block Grant

The Reagan Administration has proposed that a cap be placed on Federal administrative funding for the Food Stamp Program. The main problem we see with that proposal is that it would leave the states vulnerable to added costs brought about by Federal requirements imposed on the states without Federal financial participation in dealing with the effects of federal policies.

Home Energy Assistance Payments

FNS recently released the following policy interpretation dealing with Home Energy Assistance Payments.

> HEAP payments are excluded as income whether or not they are in the form of vendor payments. However if they are paid directly to the household, the household is entitled to the actual shelter expense or the standard utility allowance if otherwise eligible under Section 273.9(d)(6) of the regulations. If the HEAP payments are in the form of vendor payments, the household is not entitled to the actual utility expense covered by that payment under Section 273.10(d)(1) of the regulations. The household is also not entitled to the standard utility allowance if utility expenses are paid by vendor payment.

This interpretation causes inequity for clients living in states, like Oklahoma, which make HEAP payments to vendors. The food stamp benefits of such clients could be reduced because of receipt of HEAP. It also causes administrative burdens by disallowing use of the standard utility allowance. In Oklahoma, more than 90 percent of the recipients entitled to use the standard allowance elect to use it.

In our view, Congress should make clear in the new Food Stamp Act that households receiving HEAP continue to be entitled to claim shelter expenses for the amount billed and continue to be entitled to use the standard utility allowance.

State Liability for Quality Control Sanctions

We are very much opposed to lowering the quality control tolerance level and to assessing penalties based on the value of coupons issued. If the Federal Government does this, it is essential that states be given much broader authority to make changes in the program that would allow us to reduce errors. For instance we are not now allowed to make home visits as a routine

part of eligibility determinations. We could cut errors in the food stamp program if we were permitted to make such visits.

The 5 percent error tolerance goal is a goal we hope to attain in Oklahoma. Nevertheless, we are convinced it would be counter-productive to tie dollar sanctions to that goal.

We do agree that states must continue to make every effort to lower error rates and have no problem with Federal pressure to this end. In general, however, we are skeptical about the effectiveness and appropriateness of fiscal sanctions in achieving error rate reductions. Withholding administrative costs would often be counter-productive since it would lead, at least in Oklahoma and I am sure in many other states, to termination of workers and increased caseloads for those workers remaining.

Although federal agencies should take reasonable steps to ensure conformity to federal laws and regulations by state and local governments that administer federally assisted programs, it is neither appropriate nor necessary that there be an adversarial relationship among levels of government or that the Federal Government impose standards of performance that it cannot meet in its own directly administered programs. Quality control error sanctions in the form of withdrawn federal funds poisons the relationship between federal and state governments and jeopardizes support for needy people.

Importance of Food Stamp Program to Families with Children

As I said before, I strongly favor cashing out food stamps for the elderly and disabled by combining the coupon values with either the Federal SSI payment or the state supplement. Preferably, there should be a state option on cash-out for the adult categories.

I do not favor cashing out food stamps for families with children for two primary reasons: First, I think the food stamp program does increase substantially the chances that many children will receive at least minimally adequate nutrition. Second, the food stamp program moderates somewhat the wide disparities among states on cash benefits for poor families, and it helps poor families survive in the face of rising living costs, even when their available cash income is declining in real terms.

I am very hopeful that Oklahoma will soon be able to increase AFDC benefits. In January 1985, the Commission for Human Services approved a new needs standard for AFDC. I have attached to my testimony a table which shows our new needs standard, the current maximum AFDC benefit payment and the average food stamp benefit of a family receiving cash income only from AFDC. The table shows that our current AFDC benefit provides 60 percent of our new needs standard. When the food stamp benefit is added, total benefits are approximately 75 percent of total need.

A recent report by the House Ways and Means Committee calculated that Oklahoma's combined AFDC and food stamp benefit for a family of three is 69 percent of the 1984 poverty threshold. (Page 346, Report WMCP 99-2, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means, February 22, 1985.)

I am sure the Subcommittee is aware that the present designs of the AFDC and Food Stamp Programs create a disincentive for states to raise AFDC benefits. In effect, when AFDC benefits are raised, the Federal Government gets the benefit of lowered food stamp payments and pays a smaller percentage of overall costs of assisting AFDC families. A table illustrating this point is attached.

I urge the Subcommittee to work with your colleagues on the Ways and Means Committee to design a way to keep Federal support for low income families with children at a constant percentage in order to make it possible for states to give such families the full benefit of any AFDC increases the states can make.

Of course, availability to the states of an optional block grant would enable states to make more intelligent trade offs between food stamps and cash benefits.

Conclusion

USDA Food Assistance Programs have made a great contribution in promoting the general welfare, safeguarding the health and well-being of the nation's population, and raising levels of nutrition of low-income households. The programs are some of the most controversial of our benefit programs, but they are indeed essential programs for those in need.

I believe the Oklahoma Department of Human Services is administering these programs well. We look forward to the results of this year's deliberations in Congress on the reauthorization of the programs.

We ask finally that you and USDA give us reasonable lead time--at least 60 days and preferably 90--to implement the changes you make. If Congress were to deadlock over the reauthorization bill and make the program dependent on short-term continuing resolutions, confusion, added administrative costs and even hardship to recipients could result. We trust that you and your colleagues will not let that happen.

State-Local Perspectives
What Happened to the Federal/State Partnership?
Robert Fulton and Ray Scott

At a meeting we both attended recently with other state human service officials, a veteran from a southern state declared, "I have been involved with these programs for twenty-two years. Relationships between the federal and state governments are by far the worst I've ever seen.

The unanimous opinion of representatives of the nine states from three different federal regions at this meeting was that this bleak assessment is completely accurate. Supporting evidence on which there was near unanimous agreement at the meeting included the following:

* The U.S. Department of Agriculture (USDA) shows little concern for what its frequent changes in regulations and policies mean for the states. There were twelve different sets of regulatory changes in the Food Stamp Program in 1983.

* There is no longer even the semblance of a federal technical assistance function to help states build managerial capacities and comply with federal requirements.
* In the Medicaid program, almost the sole preoccupation of federal regional staffs is how to take money away from states. A similar--albeit somewhat less intense agenda is being played out in the Aid to Families with Dependent Children's program.

As former "feds" who are now heads of state human service agencies, we want in this commentary to present our diagnosis of what has happened to the federal-state partnership and our thoughts on how the partnership can be revived.

It was not until the great expansion of federal domestic programs that began in the 1950's and reached its zenith in the early 1970's that federal intiatives began to strain seriously the capacities of state and local governments. As federal programs expanded, there arose in many quarters a concern about the capacities of state and local governments to manage the new programs.

During the 1960's and 1970's, legislation for many federal programs carried training, planning, coordinative emphasis and provided for earmarked funds to help state and local governments strengthen their capabilities to handle the program. The accepted view from the federal side was that stronger state and local governments were needed to meet the challenges of an increasingly complex society and a rapidly growing portfolio of human service programs.

Not all the federal attempts to help state and local governments were appreciated by the latter nor were they all effective. Many state and local officials resented the sometimes patronizing attitude federal officials took toward the other levels of government. The key point, however, is that there was a clear recognition by the federal government of a responsibility to help state and local governments cope with the huge demands that expanding domestic programs had placed upon them. The rhetoric of the 1960's and 1970's was laced with terms such as "allied services," "capacity building," and "federal-state-local partnership."

By the early 1970's there were numerous signs that the partnership was in trouble. President Nixon attempted to consolidate many federal programs into a few large special revenue-sharing packages. The state and local governments feared that this was primarily a cost-shifting plan and opposed most aspects of it. Both Nixon and Ford administrations made a variety of attempts to terminate funding for federal programs, including many of the capacity-building efforts provided for in federal legislation.

The Carter administration proceeded with a mixed message. On the one hand, it attempted some major expansion initiatives in domestic programs, such as its 1977 welfare reform proposal. On the other, it sought to restrain growth in federal spending and reduce costs in order to help bring down inflation and interest rates, both of which reached historic peacetime highs during the Carter years.

The Reagan administration, with its agenda of reducing the domestic components of the federal government, represented a hastening of trends already underway, rather than a new era. Without question, however, it thrust the federal governent substantially further toward an adversarial, as opposed to a partnership, relationship with state and local governments.

In 1981, President Reagan, with the help of nearly all Republicans and many Democrats in Congress, succeeded in making a major shift in the mix of federal spending between domestic programs and national defense. The cuts in domestic programs took effect quite rapidly, but three years later these cuts--totaling about $60 billion annually--are approximately equal to the increases in defense spending and the interest costs resulting from revenue reductions pushed through by President Reagan. The net result is that federal spending as a percentage of the gross national product has not declined at all during the Reagan years.

Moreover, the tax changes achieved by the President in 1981 will have even more substantial effects on the federal support of domestic programs over the longer term than will the spending cuts. The President succeeded in getting a 25 percent cut in federal income tax rates, spread over a period of three years, as well as adoption of indexing tax brackets, deductions, and so on, so that the federal government will not benefit in the future from inflation in the economy in terms of increased revenues as it has in the past.

These cuts in federal domestic spending were accompanied by extensive realignment of federal grant programs, including consolidation of a large number of programs into several new block grants and extensive deregulation of programs. For instance, federal regulations for social services programs funded under Title XX of the Social Security Act were reduced from about 75 sections to 3 sections.

It would be naive to advocate a return to the good old days of the 1960's and early 1970's. Nevertheless, there is an urgent need for redefinition and revitalization of the partnership concepts that at one time characterized federal-state-local relationships. We need a new design for today and tomorrow, rather than a reincarnation of the old designs.

We see the following as key elements in the design for the future:

1. There must be reacceptance by presidents and the Congress, as well as clear communciation to federal executive branch officials and employees, that:
   a. There is a shared responsibility among different levels of government for delivery of benefits and services to needy and vulnerable people of this land.
   b. The dream of neatly sorting out funding and program delivery responsibilities of the different levels of government is just that--a naive dream. Domestic program relationships will continue to resemble a marble cake much more than a layer cake. There must, however, be a continuous search for ways to reduce administrative burdens. For example, shifting the administrative responsibility for the Food Stamp Program from USDA to Health and Human Services,

along with "cash-out" of food stamps for elderly, blind, and disabled, would be tremendous steps in the right direction.

c. No level of government has a corner on talent, expertise, or wisdom. All levels of government must share in the search for improved effectiveness and efficiency, better program designs, and efforts to improve the productivity of the American people and the basic health and well-being of American society.

d. Although federal agencies must take reasonable steps to ensure conformity to federal laws and regulations by state and local governments that administer federally assisted programs, it is neither appropriate nor necessary that there be an adversarial relationship among levels of government or that the federal government impose standards of performance that it cannot meet in its own directly administered programs. In this regard, the imposition of quality control error sanctions in the form of withdrawn federal funds should be ended. This poisons the relationship between federal and state governments and jeopardizes support for needy people.

e. The federal government should lead and coordinate a comprehensive search for excellence in planning and delivering domestic programs. This should include incentives in federal aid programs for management improvement, program coordination, effectivenss and efficiency evaluations, and other emphases that will help improve the delivery of benefits and services.

2. State and local governments must recognize that a partnership relationship requires mutuality of commitment, competence, and perspective. State and local governments must accept the necessity of meeting reasonable standards of program performance and public accountability. Those levels of governments must also rise above parochialism regarding distribution of federal funds and recognize the need for interstate cooperation in improving program management.

In our judgment, these kinds if initiatives and understandings would provide movement toward a new plan in federal-state-local relationships. We must learn from the past and mobilize the best minds of the present in shaping a revitalized intergovernmental system for the future.

DEPARTMENT OF HUMAN SERVICES
EXPENDITURES AND BUDGET REQUIREMENTS
(Dollars are shown in millions)

PROGRAM OR ACTIVITY	FY-82 ACTUAL	FY-83 ACTUAL	FY-84 ACTUAL	FY-85 APPROPRIATION	FY-85 REVISED WORK PROGRAM	FY-86 REQUEST
Services To Children & Youth	$58.9	$67.6	$61.9	$64.0	$66.0	$69.8
Developmental Disabilities	38.4	43.9	47.2	53.0	53.6	60.0
Rehabilitative Services	26.5	28.2	25.4	27.1	27.4	32.2
School For The Blind	2.6	3.0	3.0	3.0	3.1	3.2
Services To The Deaf & The Hearing Impaired	4.3	4.8	4.2	4.2	4.3	4.6
Disability Determination Unit	5.7	6.8	6.3	9.2	7.9	8.3
Medical Services Administration	380.2	415.9	438.0	468.7	465.4	497.5
Medical Claims Processing & Review	1.7	3.4	3.7	4.2	4.6	5.2
Assistance Payments & Field Operations	218.8	227.8	231.4	237.5	234.8	250.5
Services To The Aging	17.9	18.1	19.2	19.7	21.1	24.7
Administration	36.9	39.6	30.7	29.3	30.2	33.1
Management Information Division	9.3	12.4	11.8	11.9	12.1	15.8
Oklahoma Teaching Hospitals	125.4	149.5	146.1	159.0	159.0	160.1
Sub-Total of Expenditures	$926.6	$1,021.0	$1,028.9	$1,090.8	$1,089.5	$1,165.0
Medicare Payments	22.0	20.7	.1	-	-	-
Capital & Special Projects	27.1	17.6	4.4	14.3	12.1	15.6
Total Expenditures	$975.7	$1,059.3	$1,033.4	$1,192.1	$1,101.6	$1,180.6
Value of Food Stamps	75.7	101.8	118.9	226.7 (est.)		134.5 (est.)
Value of Donated Commodities	23.4	39.5	38.5	44.3 (est.)		44.3 (est.)
Total Value of Programs & Activities	$1,074.8	$1,200.6	$1,190.8	$1,273.1		$1,359.4

STATE OF OKLAHOMA
DEPARTMENT OF HUMAN SERVICES

AFDC STANDARDS OF ASSISTANCE

SCHEDULE OF BUDGETARY ITEMS FOR AFDC CASES WITH ADULTS INCLUDED IN THE GRANT

	1 Child	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7 Persons	8 Persons	9 Persons or More
Food	78	144	208	272	325	388	434	485	533
Clothing	17	34	51	68	85	102	119	136	153
Basic Drugs - Band-Aids, Alcohol, Tylenol, Cough Medicine, etc.	3	6	9	12	15	18	21	24	27
Personal Items - Soap, Shampoo, Toilet Tissue, Toothpaste, etc.	3	6	9	12	15	18	21	24	27
Shelter (Maximum)	25	120	144	168	192	216	240	264	288
Utilities	20	95	100	105	110	115	120	125	130
Household Equipment - Kitchen Utensils, Bedding, Minimal Furniture Replacement	4	8	12	16	20	24	28	32	36
Transportation	5	10	15	20	25	30	35	40	45
TOTAL AFDC BUDGETARY NEED	155	425	548	673	787	911	1018	1130	1239
Minus Food Stamps Allotment (at 100% of Need)	14	61	77	90	105	131	139	164	190
Net AFDC Budgetary Need	141	364	471	583	682	780	879	966	1049
Gross Income Maximum (185% of Net AFDC Budgetary Need)	260	673	871	1078	1261	1443	1626	1787	1940
PAYMENT STANDARD (60% of Net AFDC Budgetary Need)	84	218	282	349	409	468	527	579	629
Food Stamp Average Allotment*		133	176	206	233	278	295	335	378
Total AFDC and Food Stamp Payments		351	458	555	642	746	822	914	1007
Percent of Need Actually Met		82.6	83.21	82.45	81.57	81.88	80.74	80.88	81.27

*Twenty-two percent (22%) of the AFDC households do not receive food stamps. Only those receiving food stamps have been included in computation of average allotment.

EXAMPLE: $40 increase in AFDC monthly payment for household size 2, 3 or 6

Household Size	Old Amount AFDC	New Amount AFDC	* State Cost of Increase	* Federal Cost of Increase	Old Food Stamp Benefit	New Food Stamp Benefit	Food Stamp Difference	Net Increase To Client	Net State Cost	Net Federal Cost
2	218	258	16.61	23.39	106	94	-12	28	16.61	11.39
3	282	322	16.61	23.39	190	178	-12	28	16.61	11.39
6	468	508	16.61	23.39	301	289	-12	28	16.61	11.39

*AFDC Federal Match for Oklahoma is 58.47%.

STATMENT OF STEPHEN L. RICHMAN
CHARIMAN, COMMITTEE ON EDUCATION AND HUMAN RESOURCES
OF THE NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Introduction

Good afternoon. Mr. Chairman, I am Stephen Richman, Assistant Chief for Social Development Programs in the New York State Division of budget, and Chairman of the Education and Human Resources Committee of the National Association of State Budget Officers (NASBO). As you may be aware, NASBO is affiliated with the National Governor's Association, and is the principal organization for the development of the Governors' national fiscal and executive management policies. I want to thank you, on behalf of our association, for providing us this opportunity to contribute to your deliberations on Food Stamp Reform and Reauthorization. My comments today will emphasize the following objectives: safeguarding the right of all people to adequate and nutritious food; assuring continued full Federal participation; and maintaining the integrity and administrative equity of the food stamp program.

It is our psotion that food stamp recipients have already withstood their share of benefit cuts in 1981 and 1982 and that future Federal actions should seek to more adequately address the needs of recipients.

NASBO recognizes and agrees that the growth of Federal aid must be curtailed if the deficit is to be reduced. However, deficit reduction should not be an excuse for the Federal goverment to abandon its historical responsibility for maintaining essential income support services for the needy. Accordingly, NASBO strongly supports full funding for needs-tested entitlement programs like food stamps.

The Administration contends that its proposed reform efforts will increase program integrity and decrease fraud and errors. However, many of their proposals are designed to cut program costs by creating obstacles to program participation and expansion, thereby undermining the program's basic objective to alleviate hunger and prevent malnutrition. In addition, further human services program reductions are likely to result from any proposals to impose fiscal sanctions upon states based on arbitrary quality control error rate standards. These reductions would occur at the same time that effective state management of the program is jeopardized through a proposed cap on administrative costs.

The Fiscal Health of the States

All of these proposed reductios represent a serious threat to both the fiscal vitality of the states and the integrity of state administered human services programs. For most states, the 1985 fiscal year shows a moderate improvement in state finances. However, this improved fiscal situation comes after two years of extensive budget cutting, revenue raising, deferred expenditures and other austerity measures developed to fill the gap left by the dramatic Federal funding reductions initiated in 1981 and the 1982-83 recession. In fact, during the 1982-83 period, 44 States

increased taxes and 43 States decreased their budgets. All of these austerity measures were necessary to enable states to achieve constitutionally required budget balance, but it should be noted that most of these actions, especially the tax increases, were emergency measures, providing temporary or non-recurring relief.

Preliminary NASBO fiscal survey data shows that the total agregate general fund projected ending balance in fiscal year 1985 and fiscal year 1986 is low compared to previous years -- $4.6 billion and $4.2 billion respectively. This balance represents about only 2.4 percent of total expenditures in fiscal year 1985 and 1.9 percent in fiscal year 1986. In percentage terms these figures are the lowest on record with the exception of the recession year fiscal year 1983, since NASBO began collecting state general fund data in 1977, and represent less than half the general fund balances held prior to the recession. While the economic recovery has enabled many states to improve their financial condition, pressure to restore budget cuts, fund selected program initiatives, and repeal recent tax increases will test the ability of states to maintain reasonable year-end balances as a buffer against future economic uncertainty.

This leaves little room for the states to absorb or replace any future Federal funding reductions. Cutbacks in Federal grants-in-aid and entitlement programs, already enacted and proposed, increase demands on other government levels to provide services. The capacity of state and local governments to replace lost Federal dollars is marginal under existing circumstances. Therefore, any further shift of responsibilities for entitlement programs from the Federal to state governments, in the form of caps, sanctions or benefit reductions, will result in reduced services to the poor.

Within the framework I have outlined, I would like to take this opportunity to discuss some specific concerns relevant to both current operations and proposed changes to the food stamp program.

Quality Control

The first critical concern is with the quality control process as it operates not only in food stamps, but in all three income support programs. Fundamental reform of the quality control process must be enacted and we are hopeful that this can be achieved in this session of the Congress. While, at first, quality control was solely a management tool designed to lower the rate of incorrect payments, it has now evolved into a vehicle to reduce the federal matching share by fiscally sanctioning states failing to meet unreasonble federal error rate standards. This is troublesome since the Federal tolerance levels are generally unobtainable, and there has been a number of studies indicating that the quality control process is flawed methodologically.

For example, technical errors, which for the most part do not result in erroneous payments, are counted for the purposes of error rates used to calculate sanction amounts. In addition, current quality control fiscal sanction policies fail to take into account the differences among the states including, demographic

variances, program complexities, size of caseload and scope of coverage. There is not empirical data to support a contention that every state should be able to achieve the same error rate in the food stamp program. States are therefore being held fiscally liable for errors which are beyond the control of even the most responsible food stamp administrative agency. Moreover, final error rate results are not available from the federal government in time for states to incorporate them in any necessary corrective action plans. Generally, error rates are finalized at a minimum of two years after the State adults are performed.

In addition, it is ironic that Federal agencies are planning to finally collect sanctions at a time when state error rates are at an all-time low. Nationally, states have reduced error rates in income support programs by more than one half over the past 10 years. This progress has been made despite the increasingly complex and and continuously changing nature of federally-mandated program requirements. The food stamp program, for example, has been significantly amended at least six times since 1977. Many errors are the result of complex requirements established by either Congress or the U.S. Department of Agriculture, or of the confusion created when states attempt to administer several overlapping Federal assistance programs, all with differing eligibility and administrative requirements. States have been most effective at reducing their error rates during periods of minimal change. In fact error rates have decreased 20% since 1981 as few program changes have occured. We suggest that waivers be granted during periods of program change to accommodate necessary initial implementation adjustments.

Moreover, the magnitude of these potential sanctions is alarming. The administration's proposed budget assumes a food stamp funding reduction of $140 million due to the imposition of sanctions for prior Federal fiscal years. Prospectively on an annual basis sanctions could approximately double if even more stringent quality control measures are instituted, such as levying sanctions against program costs are levied, they will severly diminish the states capacity to effectively administer and maintain existing levels of human services programs.

Further, when you consider the size of estimated sanctions in all income support programs, which could exceed $2.0 billion by 1990, it is clear that the current quality control sanction process will significantly reduce Federal support for needs-tested proverty program.

Such a dramatic shift of funding responsibility threatens to undermine the state-Federal partnership that is vital to basic operation of income security programs, and jeopardizes the very entitlement nature of these programs.

Finally, although we understand the necessity of working towards reducing the Federal deficit, it is both unfair and burdensome to force states to pay to the Federal government funds which could be better utilized to enhance program administration. States have spent millions of dollars to reach unrealistic error rate tolerance levels. We are fast approaching a point where the cost of error rate reduction exceeds the savings achieved. We would hope that, during the deliberations on reauthorization, a

proposal to review the quality control process would be considered so that states are not subject to arbitrary financial sanctions. Such a revamped quality control process should include: fiscal incentives to states to encourage error rates reduction and to partially defray the expenses of these efforts; technical assistance to states in establishing effective quality performance requirements based on demonstrated achievement, demographics and program charateristics. Many of these provisions are included in the H.R. 2621 introduced by Representative Jeffords. We are hopeful that similar legislation will be introduced in the Senate.

Mr. Chairman, I have with me a position paper on quality control that NASBO has developed which addresses these issues in more detail. I would appreciate it if that could be entered into the Committee's record.

Block Grant

A second concern we would like to express relates to our strong opposition to any attempt to fund the Food Stamp Program in the form of optional state block grant such as proposed in S. 616 and S. 969. By "blocking" all nutrition assistance programs, including food stamps, entitlement status is threatened. The Food Stamp Program is the only national income security program that establishes a uniform national benefit. Block granting would result in benefit inequities from state to state as the larger federal role is reduced.

Governors support maintaining the current federal role as states are unable to control economic conditions leading to program dependency and those states that experience the greatest need for income support programs are often the states with the least resources to meet those needs. Food stamp entitlement status assures that federal resources are immediately available and responsive to caseload fluctuations. The unequal distribution of poverty and income among the states made the continued federal role vital to the preservation of the social net.

While some block grant proposals, including the Administration's proposal, allow for annual adjustents in block grant levels, such adjustments fall short of State's current protection. These proposed adjustments would not be responsive to caseload increases due to an increase in the poverty population, or economic downturns which may occur during the year. In addition, if households who are potentially eligible but not yet participating find their way onto the rolls, estimated at 14 million people natonwide, proposed block grant levels tied to 1984 appropriations would be severly inadequate. Proposed adjustments tied to the unemployment rate would not account for demographic changes, cost of living increases, number of discouraged workers or other factors recognized as not being counted. At the same time these economic conditions would undoubtedly produce a reduction in state resources causing states to choose between not providing benefits to all their needy citizens, cutting other programs, or raising taxes during an economic downturn.

As past experience with other block grants such as the Community Services Block Grant, Social Services Block Grant, and Food Stamp/Nutrition Block Grant to Puerto Rico have shown us, the likelihood that federal assistance will be capped and/or reduced is increased when a program is blocked. Given our large federal deficit, measures designed to limit federal costs, including reducing or capping any Food Stamp Block Grants are almost certain.

Block grant proponents contend that States are being offered greater flexibility and administrative simplicity. States can already achieve greater simplicity and flexibility as well as target benefits to those most in need within the existing administratie framework without eliminating the program's entitlement status. Block granting only gives states the added "flexibility" to choose between providing benefits above available federal funding at state cost or not to serve all those in need.

Block grant proposal sponsors and members of the Administration are misleading states into believing a block grant will eliminate future fiscal sanctions. Although error rate sanctions would be abandoned for years after 1985 if a state chose block grant, collection for prior year sanctions is still intended and federal block grant audits could result in state fiscal liabilities that equal or exceed current error rate sanction amounts for future years.

A continued federal role in the form of an entitlement program is vital to preserving the social safety net.

Fixed Administrative Cost

A third concern we have is the Administration's proposal to finance food stamp administrative costs by limiting state's funding in 1986 to the 1985 level, and by tying future increases to the GNP deflator. We strongly oppose imposition of this cap as it would not accommodate normal program growth and will effectively shift a disproportionate share of the administrative costs for this Federal program to the states, who in turn would be forced, as funding stagnates and costs rise, to reduce their capacity to deliver quality services to recipients, and forego employee cost-of-living increases. In addition, a fixed cost requirements to achieve lower error rates in the food stamp program. Reductions in errors cannot be achieved without additional investments in program administration, which are not recognized in this proposal. Tying costs for a public assistance program to the GNP deflator is also illogical as there would be no assurance that program funding would increase during economic down turns when more people are in need of services. Such a change would be especially devastating to Northeastern and Midwest communities where local economies are more affected y cyclical fluctuations that increase recipients and, in turn, administrative costs. Finally, the cap would also elimnate incentive funding for computerization, claims collections and other measures aimed at program improvement which often require an initial investment prior to realizing any savings.

Workfare

We are against instituting mandatory workfare requirements. Current program rules already require all able-bodied recipients to register for available work. Workfare is an expensive "make-work" program which does not enhance the recipient's ability to gain permanent employment, but rather is a disguised tactic to discourage program participation to justify decreasing total expenditures. The workfare target popoulation typically experiences frequent fluctuations in income and grant levels that would create periods of varying workfare eligibility and ineligibility. For this reason it would not only be extremely difficult to administer a workfare program, but would also be highly cost-ineffective.

Reinstituting the Purchase Requirement

We implore the Committee to recommend against reinstituting the purchase requirement whereby recipients must make a cash contribution in order to receive benefits. We view this as yet another attempt to provide a disincentive to particpatre. Past experience has proven that this requirement acts as an obstacle to the most severly impoverished who have difficulty "buying-in" to assistance. States would be burdened with the additional responsibility of handling cash used to buy benefits, which would undoubtedly increase program cost, and the likelihood of fraud and errors.

Monthly Reporting

Our next suggestion is to make monthly reporting and retrospective budgeting a state option. Cost/benefit analysis shows that especially in states with large complex programs such as New York, MRRB is not producing a savings, is costly to state administering agencies and is no more effective at reducing overpayments than previously used methods.

Shelter Benefits

As you are all aware, finding affordable shelter is becoming increasingly difficult for low income persons. Recipients who receive shelter and energy cost assistance are penalized when such assistance is counted as food stamp income and therefore decreases their food stamp benefits. We urge you to rectify this situation by exempting any increases in shelter or energy assistance such as HEAP benefits from consideration as food stamp income, decoupling the excess shelter and child care deduction at adequate levels such as proposed in H.R. 1844, that will allow recipients to live in decent housing while seeking permanent employment. In addition, we encourage the Committee to broaden exclusions under vendor restricted payments to more adequately represent actual disposable income available for food purchases.

Compatibility with AFDC, SSI

Our next suggestion is to make the food stamp program more compatable with the Aid to Families With Dependent Children (AFDC) and the Supplemental Security Income (SSI) programs. The eligibility determination process for all three programs requires that

eligibility workers separate income and resource tests for each applicant. This is duplicative and administratively burdensome. By making eligibility rules more compatable, program efficiency will be increased.

Current resource limits of $1500 generally and $3000 for elderly/disabled multi-member households are inadequate and should be upgraded to $2,250 and $3,500 respectively. In addition, the threshold for counting the value of vehicles against the resource limit should be increased from $4,500 to $5,000 to more acurrately represent today's prices. Moreover, the Deficit Reduction Act of 1984 (P.L. 98-369) requires that trhe first $50 of any monthly child support income received by an AFDC family must be disregarded in determining eligibility and benefit levels. A parallel change exempting this payment from food stamp income would ensure that recipients receive the increase in benefits which Congress intended.

Cost-of-Living Freezes

- Program income limits, the Thrifty Food Plan, and currently indexed deductions should not be frozen at present levels. As food, shelter and dependent care costs continue to rise so must deduction limits and benefit levels to accurately reflect disposable income. The Thrifty Food Plan should represent actual food price projections. Presently, the Thrifty Food Plan is far behind current food costs.

We also request that the earned income deduction be upgraded to the previous 20 percent level. This deduction recognizes the cost of going to work and earning income and represents amounts that are clearly not accessible to recipients for food purchases.

Homeless

Presently, the food stamp program excludes a large segment of needy persons from participation -- the homeless. These persons are barred from participating, even when residing in shelters. States are incurring significant costs for feeding these shelter residents. We propose that allowances be made, similar to those enacted for battered women's shelter residents, to permit these destitute people to participate and strengthen the State/federal partnership in alleviating the homeless problem.

Conclusion

Mr. Chairman, we encourage this subcommittee to press for a reauthorization bill that will incorporate fair and equitable administrative standards and preserve benefits to the needy. We cannot be "pennywise and pound foolish" in redesigning the food stamp program, our most significant weapon in the war against hunger and malnutrition. Nor can the Federal government wash its hands of the business of feeding the poor by shifting financial responsibility to the states under the guise of providing greater administrative flexibility, or by using backdoor federalism tactics as reducing the Federal match through the imposition of unreasonable sanctions. The states are not in a position to offset federal reductions. While we agree that containing program expenditures is essential, full Federal funding for means-tested

entitlement programs must continue. Hunger is a national problem and must be dealt with uniformly on a basis.

The following material was submitted by Stephen Richman, representing the National Association of State Budget Officers.

QUALITY CONTROL IN FEDERAL INCOME-SUPPORT PROGRAMS:
THE IMPERATIVE FOR REFORM

A Position Paper

Introduction

Under existing Federal quality control policies it is conceivable that the Federal government could levy more than $1.5 billion in fiscal sanctions against the states over the next five years. This staggering sum is of deep concern to state budget officials since it represents a serious threat to both the fiscal vitality of the states and the integrity of state administered human services programs. For most states, the 1984 fiscal year ended with a moderate improvement in state finances. However this improvement followed two years to extensive budget cutting, revenue raising, expenditure deferrals and other austerity measures, actions that must all be considered temporary in nature. Any valid assessment of the current fiscal conditon of the states must take into account future expenditure requirements, the stability of current revenue streams, including Federal grants, and the likelihood of a slowdown in economic growth. All factors considered, the states can ill-afford to absorb quality control penalties of the magnitude estimated above without profound negative consequence. Moreover, levying these sanctions would constitute a serious failure in the quality control program, for it would only serve to highlight the inequities and gross deficiencies inherent in the current systems. It is also very likely that the imposition of these sanctions by the Federal government would produce extensive, costly and protracted litigation by the states, which would seriously undermine the true goals of quality control.

The National Association of State Budget Officers (NASBO) believes that it is in the best interests of the Federal government and the states to avoid this outcome and the confrontation it could produce. Rather, the Association believes that now, prior to any precipitous action by the Federal government, is the time to embark upon a joint venture to produce real reform in the quality control system.

NASBO believes that quality control is an essential tool in preserving effective management in income support program. We wholeheartedly agree that achieving cost effectiveness through reductions in errors is an appropriate and necessary public policy objective, and that accountability for the expenditure of public funds must remain a high priority. However, to be truly effective quality control programs must be fairly and equitbly administered, recognizing the legitimate role, responsibilities, and administrative burdens of the states. Clearly, the current systems do not meet this test. Rather, they are serving as devices to accomplish a shift of financial responsibility for

federal guaranteed income support programs, from one level of government to another. This policy is inequitable and unacceptable to the states.

To respond to these concerns, this paper sets out, in broad form, and from the state perspective, the problems we believe exist with current quality control and fiscal sanction policies, and suggests specific remedies and avenues to achieve programmatic and fiscal reform. NASBO firmly believes that adoption of these recommendations will ultimately lead to more effective program management and a more efficiently administered human services system. It is our objective, therefore, that this paper provide a basis for further discussion with Federal officials with respect to both the future policy development and detailed application of national quality control initiatives.

Background

Quality control in Federal income support programs dates back to 1963 when the Department of Health, Education and Welfare promulgated regulations requiring biannual reviews of AFDC case actions. In the intervening twenty years at least half a dozen major quality control procedural and policy changes have been implemented in AFDC alone, most without benefit of congressional action. In addition, since the mid-1970's quality control reviews have been required in the Food Stamp and Medicaid programs and in these programs as well policy revisions have been commonplace. Although these three Federal income support policies among the programs are not uniform. This lack of consistency in quality control is indicative of a larger programmatic problem in AFDC, Medicaid and Food Stamps. Over the past four years each of these complex Federal programs has experienced major policy changes on a continuing basis. Too often these changes have further exacerbated existing inconsistencies among the programs. At the same time, congressional action has required Federal regulatory change, conforming state legislation, and numerous changes to local eligibility manuals, procedures and automated systems required for administrative support. These changes have been costly to implement and have created an administrative nightmare for the states. However, despite the growing complexity of these Federal assistance programs, despite numerous and frequent policy changes of significance, and notwithstanding shifting and inconsistent quality control policies, states dramatically reduced their error rates prior to the collection of any fiscal sanctions. From 1973 to 1982 the AFDC error rates has been more than halved, dropping from 16.5 percent to 7.3 percent. The error rate in Medicaid fell from 6.2 percent in 1978 to an estimated 3.3 percent in 1982, and the Food Stamp error rate declined from 23.5 percent in 1974 to 12.2 percent by 1982.

These error rate reductions and concommitant Federal and state savings, have been achieved during a period in which the overall administrative burden on states has increased significantly. Moreover, the decline in error rates signifies the states' determination to reduce inappropriate payments and their commitment to invest considerable resources to the achievement of that goal. Indeed, the states and the Federal government have spent

literally hundreds of millions of dollars on corrective actions during the past decade. Improvements have been made in such areas as computer-assisted eligibility determination and grant calculation procedures, data matches involving wages and other benefit programs, worker training programs, caseload management, client education, fraud detection and prevention, and administrative performance monitoring.

Clearly, it is apparent that error rate reduction is in the best fiscal interests of the states, and that the prospect of cost savings has been a significant motivating force in the improvements in program management achieved to data. Further, reductions in error rates are not likely to be achived through the imposition of sanctions. Rather, the curtailment of errors will largely depend on the complexity of Federal policy, the frequency and magnitude of policy changes, the rationality and cost effectiveness of quality control efforts, and the availability of sufficient Federal and state funding for program administration. In the following sections we will describe major shortcomings in existing quality control programs and propose remedies to bring about need reform.

Significant Problems in Quality Control Programs

The current Federal quality control programs are in many respects inefficient and ineffective. They do not produce a valid and reliable estimate of real errors or produce information on a timely basis, and they often result in penalizing states that have been performing well. Moreover, the quality control programs disregard crucial socio-economic and program variations among the states. They are practiced inconsistency of policy across the three income support programs. Approaching these problems from a somewhat more detailed standpoint, they fall into the following major categories:

- o Performance Targets. The current 3 percent error rate tolerance level in the AFDC program is unreasonable. Only one state has been able to achieve and maintain such a performance level for three consecutive periods. The performance target does not adequately recognize the complexity and intricacy of the eligibility and benefit calculation processes; nor does it recognize valid and crucial state-by-state differences. For example, no provision is made to distinguish size of caseload, poverty levels, unemployment, urbanization, the scope of coverage or benefit levels. This is the case despite a report by DHHS in 1982 that program variations can significantly effect error rates and that states with large, urban caseloads face more difficult problems in controlling payment errors, even in the presence of comparable resources.

- o Definition of Errors. The current systems ignore valid differences between client-caused errors and agency errors, and wrongfully require states to count technical errors in calculating penalties. Approximately half of all errors identified are client-caused and appear for the most part to be beyond the capacity of state agencies to fully control, despite the sub-

stantial resources that have been expended on control techiques and education. On the other hand, technical errors which are unrelated to payment errors count equally in the calculation of sanctions. States are understandably reluctant to spend limited administrative funds to correct errors that have little, if any, fiscal consequence.

- o Computing Error Rates. Current mandates that dictate the manner in which error rates must be computed may act to overstate actual state errors. Since these error rates are based on samples of cases, only the probable range, and not the true error rate is determined. As a result, states may be subject to a penalty because its mid-point error rate exceeds the Federal tolerance level, even though the lower end of its error rate range falls below the tolerance. Consequently, states may be penalized for more errors than are actually committed. In addition, due to the small size of some of the samples, larger ranges or confidence intervals are required, leading to greater uncertainty in error measurement and disproportionate impacts. This, combined with the requirement to count technical errors, can create an inaccurate picture of state performance.

- o Reviews Process. The manner in which the initial quality control review and subsequent Federal re-review are conducted in not reasonably related to the circumstances under which an eligibility worker must operate. As a consequence, the validity of the quality control process as a fair indicator of state adminnistrative performance is clearly suspect. A quality control auditor has an average of six months to investigate a client's financial circumstances, while a caseworker has a maximum of thirty days to complete the same review and make an eligibility determiniation. In addition, quality control review standards are far more rigorous than those that an eligibility worker could be reasonably expected to apply. Moreover, Federal auditors have, in the re-review process, the additional advantage of focusing solely on the cases included in the state sample without being confronted by the time constraints and competing demands routinely face by eligibility workers. It is apparent, therefore, that the opportunities available to Federal reviewers to identify potential errors are not generally available during the initial eligibility determination process.

- o Federal Management of Quality Control. Quality control management policies are applied unevenly across the country and are not implemented in a cost-effective manner. For example:
  - -- As stated previously, there is a lack of consistency and uniformity in quality control policies among the several Federal income support programs;
  - -- The quality of Federal reviews differs within and among the various regions and causes inequities in the way states are treated;
  - -- Different Federal policies requiring judgmental application have led to additional errors through interpretation;

-- Federal delays in releasing error rate data have made it difficult for states to plan and implement effective corrective action programs, and to legitimately document their requests for sanction waivers; and
-- The cost-effectiveness of corrective actions is not taken into account in determining whether sanction waivers are granted. In certain instances the cost to achieve error reductions will exceed the funds saved.

In summary, these problems, which go to the very heart of the quality control program, seriously undermine its effectiveness and call into question the Federal government's assertion that quality control is a positive management tool for promoting better program administration. Rather, it now appears that quality control may become a mechanism to reduce Federal funding for income support programs while shifting the financial burden to the states. As such, it would represent a backdoor approach that would undermine and reverse the long standing Federal financial commitment to basic saftey net programs. If implemented in this fashion it is highly likely that states may be forced to reduce administrative costs and/or recipient benefits or services.

Recommendations

NASBO is committed to working with Federal officials, members of Congress and other interested parties in bringing about real reform in quality control. We believe it would be a serious mistake for the Federal government to continue the policies now in force and to impose costly, unfair, inefficient and ineffectrive sanctions upon the states. These sanctions would undoubtedly harm, rather than improve the propsective administration of income support programs and could constrain states to institute reductions in services or administration they otherwise would not impose. We believe the following series of recommendations, if implemented, can positively reshape the program and serve to reaffirm the importance of quality control as a necessary and appropriate management tool.

o Performance Targets. Uniform performance targets now established at 3 percent nationwide should be replaced. Tolerance levels should appropriately differentiate among state caseload and program characteristics, thus recognizing uncontrollable socio-economic factors and the complexity of state administered programs. Alternatively, current error rate performance targets could be replaced either by a process that separates major portions of eligibility determination and benefit calculation, establishing discrete targets for each and recognizing the particular state circumstances in which these programs operate within federal guidelines (e.g. the number of optional services provided); or by a system that establishes targets based upon achievable goals as determined by peer performance.

o Definition of Errors. Those tecnical errors which do not contribute to erroneous expenditures should be excluded for purposes of calculating fiscal sanctions. In addition, client-

caused errors should be discounted in determining ineligible or incorrect payments subject to fiscal sanction. Many technical errors cannot be reasonably controlled by administrators, and may not contribute to erroneous program expenditures. Discounting client-caused errors would recognize that states cannot hope to totally eliminate these errors. However, errors of both types, technical and client-caused, should be measured for management purposes.

- o Computing Error Rates. The official errors rate for purposes of fiscal sanctions should be the lower end of the statistical range in which it falls. This would obviate the possibility of overstating a state's error rate and imposing higher than warranted sanctions. This recommendation is consistent with positions taken by the General Accounting Office and the National Research Council. Furthermore, quality control reviews should be conducted, at state option, either semi-annually or annually, and be based on a statistically reliable sample of cases.

- o Review Process. The quality control review process should be modified so that it operates according to reasonable time constraints and review standards. In particular, Federal re-reviews should be completed within six months after the state review is conducted and Federal auditors should oeprate without the benefit of the specific state-by-state audit results. This modification will enhance the credibility of the quality control process as a fair indicator of state administrative performance.

- o Federal Management of Quality Control. The Federal government should assure the quality control policies are uniformly interpreted and applied by the regional offices across the country and that, to the extent practicable, quality control standards are consistent or uniform among the three income support programs. In addition, reasonable time limits (e.g. six months) should be established within which a state's error rate is determined and finalized through the Federal re-review process, so that corrective action can be undertaken in a timely and cost-effective manner. The current time lag for final determinations averages two years from the close of the audited period. Clearly this delay further undermines the states's ability to achieve what should be the major objective of quality control--improved administration. With respect to identified errors, the Federal agencies should consider extraordinary state circumstances and the cost-effectiveness of corrective actions when determining the approvability of a state's waiver request. Finally, we strongly believe that states should be afforded the option to appeal adverse quality control decisions before a departmental grant appeals board.

Conclusion

It is the position of NASBO that the foregoing recommendations constitute a reasonable basis for achieving reform in quality

control, and that their implementation would dramatically improve the effectiveness and credibility of performance monitoring and control by Federal agencies. These recommendations have been developed to facilitate achievement of the following goals:

* To maintain accountability in the expenditure of public funds for income support programs, while ensuring program integrity and the equitable distribution of financial responsibility between the Federal government and the states;
* To assure that the quality control process yields error rates that are fairly determined and appropriately reflective of program complexity and socio-economic and geographic factors beyond a state's control;
* To establish fair and uniform management of quality control programs among Federal agencies and throughout the Federal regions; and
* To impose fiscal penalties that are based solely upon overpayments made, or erroneous benefits sissued; while states should be required to identify and attempt to correct all errors, no sanctions should be imposed that are not related to misspent funds, nor should any sanctions be imposed that are based upon current Federal standards or guidelines that are determined to be improper or inequitable.

Furthermore, it is NASBO's position that prior to any imposition of sanctions by the Federal government for past periods, the inequities in the current system should be remedied, incorporating the reforms recommended in this paper. We believe this is essential to assure that the error rates promulgated are truly reflective of state performance. This will significantly enhance the potential for broad-based acceptance of the quality control process.

To further strengthen the quality control process as a fair indicator of state performance, the program should provide, in the future, for appropriate lead time and a grace period from sanctions to help states respond to any change in Federal rules or regulations. Given the magnitude of program changes in the recent past, and the time required by states to adjust systems and procedures, temporary waivers would provide a reasonable opportunity for appropriate implementation of program changes.

In summary, now is the time to move toward the implementation of these goals. We are at a crucial juncture in quality control, where the opportunity for achieving reform in a cooperative environment currently exists. NASBO believes that it would be a serious mistake to let this opportunity slip by, and accordingly we look forward to a constructive dialogue with Federal officials in the weeks and months ahead.

Resolution

QUALITY CONTROL ERROR RATE SANCTIONS

WHEREAS The National Association of State Budget Officers firmly believes that achieving cost effectiveness through reductions in income support program errors

is an appropriate and necessary public policy objective;

WHEREAS The current Federal Quality Control systems for the needs-tested entitlement programs administered by the states are inaccurate and inequitable in their measurement of state performance;

WHEREAS Punitive sanctions are not effective in achieving the goal of reducing AFDC, Food Stamp and Medicaid error rates nor are they necessary because states and localities have a major financial interest in proper administration of these program and because each error in the AFDC and Medicaid programs unnecessarily expends state dollars;

WHEREAS The states have accomplished significant reductions in error rates over the past several years and will continue our concerted effort to reduce these error rates even further;

WHEREAS The imposition of sanctions by the Federal government may require states to reduce expenditures in human services programs and could ultimately lead to a weakening of the administration of these programs;

THEREFORE BE IT RESOLVED that the National Association of State Budget Officers recognizes that there is sentiment in Congress for retaining sanctions and is committed to working with Federal officials to shape an equitable quality control system. It is the position of the National Association of State Budget Officers that such a system must recognize the legitimate role, responsibilities and administrative burdens of the states and accurately reflect the complexities of the Federal income support programs. Accordingly, we urge the Congress to consider immediate action that would at a minimum:

* Eliminate sanctions for "technical errors," i.e., those errors which do not affect the final payment, from the calculation of error rates used for fiscal sanctions;
* Set error rates at the lower bound of the range of the statistical estimate;
* Require that the quality control review process operate on a timely basis, and incorporate reasonable review standards.
* Assure the uniform application of quality control policies nationwide and the development of consistent standards across the income support programs.
* Provide states appropriate lead-time and a grace period sanctions to help states respond to any change in Federal rules or regulations.

BE IT FINALLY RESOLVED that the National Association of State Budget Officers recommends that the imposition of sanctions under the current system be waived until such a time as the Congress has completed action on

the necessary reforms. Failure to take such action will only increase the uncertainty under which states must budget for these programs and may result in unnecessary reductions in vitally needed services.

Gerald H. Miller, Secretary

STATEMENT OF JOHN C. WEICHER
F.K. WEYERHAEUSER SCHOLAR IN PUBLIC POLICY RESEARCH
AMERICAN ENTERPRISE INSTITUTE

I am pleased to have the opportunity to appear before the Subcommittee on Nutrition as you deliberate on the Food Stamp Program. I have been asked to discuss food stamps in the broader context of low-income benefit programs--as part of the "safety net"--rather than to evaluate the program itself in detail. Accordingly, my testimony describes the evolution of the safety net, particularly its changes during the present administration, and the corresponding changes in food stamps. I will conclude with an assessment of the current state of the safety net--has it been maintained? Does it protect the poor in our society.

The Concept of the "Safety Net"

I define the "safety net" to include programs that provide benefits, in cash or in kind, to the poor, and only to the poor. These programs are" Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), public housing, Section 8, and other susidized housing programs, Medicaid, low-income home energy assistance and the earned income tax credit, as well as food stamps and the child nutrition programs. In terms of the budget categories, the safety net includes about half of the programs in the "income security" category, plus Medicaid.

This definition is about the same as that used by the Reagan Administration in its fiscal year 1985 and 1986 budgets, where the term "safety net" is sometimes used interchangeably with "low-income benefit programs." It is not, however, the original meaning given by the Administration. President Reagan's 1981 budget message, submitted within a month of taking office, stated that he wanted to achieve the "preservation of the social safety net," simultaneously with "revision of entitlements to eliminate unintended benefits." The "safety net" included "those programs, mostly begun in the 1930's, that now constitute an agreed-upon core of protection for the elderly, the unemployed, and the poor," and also veterans; "unintended benefits," by contrast, were primarily a problem in "newer Federal entitlement programs and related income security programs that have undergone rapid growth during the last 20 years." This apparently meant that the safety net include social security (and perhaps Medicare), veterans' benefits, unemployment compensation, and the basic wel-

fare program, AFDC. These are mostly programs for which eligibility and benefits do not depend on income, and which reach middle-class families and individuals as well as the poor. In subsequent years, the administration has given other meanings to the term, gradually including more of the low-income benefit programs an deliminating the broader entitlements, until the present defintion was established in the fiscal year 1985 budget, a year and a half ago. This definition is probably more in line with common notions about what the safety net should be.

In my testimony today I will first describe the changes in the safety net since 1981, both in terms of budget outlays and program structures. Then I will assess the present state of the safety net.

The Safety Net Budget

The budgetary consequences of the policy changes can be simply summarized. When President Reagan came into office, real outlays for income-conditioned programs had been rising rapidly for two decades. Through 1985, they were projected to continue rising slightly, in real terms. Table 1 chronicles the real growth in safety net expenditures. (Because we have suffered so much inflation in the 1960's and 1970's, it is most useful to talk in terms of real dollars; I use 1985 dollars in this testimony.)

In large part this growth occurred because many of the programs were created in the later 1960's or early 1970's. Real outlays for all programs doubled during the 1960's and doubled again by 1975. From 1975 to 1980 few new programs were created and the growth rate slowed, but outlays still rose by almost 40 percent.

The increases were all well above the growth of the U.S. economy, or the rest of the federal budget. Real Gross National Product rose at an annual rate of about 2.5 percent in the early 1970's and 3.7 percent after 1975. Outlays rose as a share of the total federal budget from 8.5 percent in 1970 to 12.7 percent in 1980.

Further growth was in store. Table 2 shows the projected budgets from 1980 to 1985. President Carter's last budget proposed a gradual increase of 11 percent by 1983, and 14 percent by 1985. President Reagan's revised budget of March 1981 was quite different. It called for a 5 percent decrease by 1983, and about 9 percent by 1985. Congress essentially split the difference; in the Omnibus Budget Reconciliation Act it gave President Reagan about half the cuts he asked for. Thus, there was a slight increase instead of the slight decrease requested by President Reagan. This certainly was a departure from the long-established trend, but compared to the current level of expenditures, the dollar amounts involved were not large; OBRA was only about $4 to $5 billion annually above President Reagan's proposal, and $4 to $5 billion less than President Carter's.

In his fiscal year 1983 budget, President Reagan resubmitted most of the proposals that Congress did not approve the previous year, and asked for further reductions in program outlays amounting to about $2 billion per year. Congress approved very few of these proposals, however. In subsequent years, the Administra-

tion has asked for very little in the way of additional budget cuts; the fiscal year 1985 budget proposed to cut $2.8 billion, consisting entirely of reductions that it had proposed in previous years, and that Congress had been unwilling to approve. The fiscal year 1986 budget proposed to cut about $2.9 billion, or about 4 percent, much less than the 9 percent that the President wanted in the overall domestic budget, or the 15 percent when Social Security is omitted.

Congress has continued to reject nearly all of these changes, and has partially reveresed a few of the reductions that it approved in 1981. But even though the Administration has not achieved everything that it originally wanted, it nonetheless seems to be satisfied with the outcome. The fiscal year 1985 budget included a retrospective discussion of the safety net programs, asserting that "one of the most intractable budget and social policy issues facing the Nation in 1980 has largely been resolved" growth in the programs had been slowed if not stopped, and the safety net had been maintained. The relatively small reductions proposed in both fiscal year 1985 and fiscal year 1986 are further indication that the Administration is no longer seeking significant cuts in these programs. The safety net is likely to remain at about its present size, or to grow slowly, by past standards. From 1980 to 1985, real expenditures have risen by about 12 percent, compared to 39 percent in the preceding five-year period.

Food stamps were cut more than most other safety net programs. The President asked for, and Congress approved, reductions of about 15 percent in 1981. About a quarter of the reductions, however, occurred because temporary changes that Congress had enacted in 1980 were made permanent in 1981.

The Safety Net and the Recession

The actual expenditures, shown in Table 2, have turned out to be closer to President Carter's original projections than to President Reagan's, even though Congress approved about half of President Reagan's proposed reductions. The reason is the 1981-1982 recession, which was not foreseen by either President in 1981--nor by other government agencies or private business economists. Both Presidents assumed steady growth and falling unemployment. Instead, the recession drove up actual and projected outlays in 1982 and 1983 by about 5 percentage points above what they would have been under the budget assumptions.

The major increases occurred for food stamps and AFDC, which are most sensitive to changes in the economy. In food stamps, for example, the Carter budget projected about a 5 percent increase in real benefits between 1980 and 1983, while President Reagan asked for and Congress voted for about a 45 percent cut. Had the President's original economic assumptions proved valid, savings would have been about $1.5 billion in 1982. But the rise in unemployment pushed outlays up by about $1.2 billion. Actual outlays have therefore been about the same as the Carter projections.

At present, even though the recession is well behind us, the unemployment rate is well above the 1981 projections. President Carter assumed that the rate in 1985 would be 6.3 percent; President Reagan assumed 6.0 percent. Instead, the current rate is 7.3 percent and steady. The higher unemployment rate adds about $750 million to $1 billion to outlays in Food Stamps and AFDC, so that expenditures are still above the original projection; in the absence of the recession, real outlays on the safety net would have increased by less than 10 percent in the last five years.

Structural Changes

These budget savings have been achieved through a set of systematic and general consistent structural changes across the individual programs. Several basic themes can be identified. In most cases, food stamps provides an example.

Targeting Benefits. Perhaps the most pervasive policy has been to target benefits more precisely to the lowest income individuals and families. In nearly every program area, eligibility standards have been lowered to eliminate those who were relatively well off. For food stamps the income limit for non-elderly households was cut from 160 to 130 percent of the poverty line. Conceptually similar Administration proposals for the school lunch program were rejected by Congress. However, in subsidized housing programs, Congress decided to reduce the income limit more sharply, from 80 percent of the local median income (for a family of four) to 50 percent, which is roughly the 120 percent of the poverty line. In AFDC eligibility was limited to those with incomes below 150 percent of a state's "standard of need." In addition, eligibility was limited for AFDC recipients who were working or who began to work while receiving assistance. This is not the same thing as a lower income limit, but it had a similar effect, since the working poor tend to have higher incomes than other beneficiaries. The AFDC limits on benefits for the working poor also affected Medicaid and food stamps. Overall, a larger share of a smaller dollar amount of assistance is now going to the poorest part of the population.

Helping the "Truly Needy". The Administration seems to have the conviction that assistance shoud be given only to the "truly needy," a concept that Congress has been willing to support at least to a limited extent. This phrase was used by the President in his initial revisions of President Carter's budget, in April 1981, but so far as I am aware, it has never been explicitly defined. It appears to include, however, those who are especially poor (below the poverty line, for example) and who are unable to work or to take care of themselves. Those who can work seem to be excluded. The term seems to be analogous to the older notion of the "deserving poor." The elimination of the "thirty-and-a-third" disregard of earned income for AFDC recipients, which in effect means that many working AFDC recipients lose their benefits after four months (including food stamps and Medicaid) is consistent with the idea that those among the poor

who can work are not "truly needy." This may explain why the Reagan Administration has had no interest in the negative income tax approach to welfare reform, advocated by President Carter and considered seriously by earlier administrations and by Congress in the past.

Reducing Regulations. The Administration and Congress have provided more flexibility to the states and localities which actually run the programs. This reinforces the emphasis on the "deserving poor;" who is or is not deserving can best be determined by states or localities, not by the federal government. The favored instrument for achieving this objective has been the block grant as a replacement for categorical programs, such as the nutrition block grant for Puerto Rico. Block grants have also been proposed in may program areas outside the safety net, including education and social services. The block grant idea is, of course, not new; several grants were created in the early 1970's. But the concept has been extended to new program areas.

One reason for consolidation has been the belief that programs can be administered more effectively and less expensively by states or localities if there is less federal regulation. The Administration therefore proposed to cut the funding for its new block grants, compared to the categorical programs. It is continuing to propose freezes or other limitations on administrative expenditures in various safety net programs. But the interest in reducing regulation extends beyond budget issues; reduced regulation is favored in areas where there is little or no budget saving involved.

Limiting Benefits. The Administration has proposed to cut some of the benefits for those who remained in the various programs, even if they were below the poverty line. Food stamps and nutrition programs exemplify this. Children from poor families receive benefits for the same meals under the food stamps and school lunch pgrograms; the Administration proposed to end the duplication, at a savings of about $500 million annually. Congress has been unwilling to approve this proposal. Had it been adopted, it would have been one of the largest single changes in benefits going to the poor. However, Congress has approved a few reductions of similar size in other programs. Tenants in subsidized housing were required to contribute a larger fraction of their income toward their rent. In Medicaid the administration sought a 5 percent ceiling on the growth in outlays, which was transformed by Congress into a reduction in the rate at which the federal government would match state outlays. In addition, there were a number of small changes in most programs, tightening the rules and deferring cost-of-living benefit adjustments.

Curtailing Waste. Consistently, with a long-expressed concern of the President's, the Administration sought to curtail waste and abuse by providing new incentives to states and localities to reduce errors and new penalties for failing to do so.

Maintaining the Safety Net?

After all these budgetary and structural changes, does the safety net still hold? It is too early to give a final answer to this question, but it is possible to make some preliminary assessments, based on the expenditure changes that have occurred.

One simple way of evaluating the changes is to measure the total amount of assistance being provided by these programs, relative to the number of people living below the poverty line. This ratio is shown in Table 3. As in the other tables, outlays are reported in constant 1985 dollars.

Outlays per poor person rose sharply before 1980, from $325 in 1960 to $1875 in 1975 and $2275 in 1980. They declined to about $2000 in 1982, then rose to $2075 in 1983--about halfway between the figures for 1975 and 1980. This, in my judgment, is not a large change. Moreover, this ratio does not measure benefits actually going to the poor, because eligibility for many programs was not and still is not limited to those in poverty. The administration's and the Congress' efforts to improve targeting have offset part of the reduction. In food stamps, for example, the share of benefits that went to the poor increased from 72 to 81 percent between 1980 and 1982.

One problem with evaluating the effects of the policy changes is that they occurred at the same time as the 1981-1982 recession. But it seems clear that the recession has been more significant than the policy changes in affecting the well-being of the poor. During the recession, the "poverty gap"--the amount of income necessary to bring everyone below the poverty line up to it--rose substantially, from $36 billion in 1980 to $46 billion in 1983 (both measured in 1983 dollars in this instance). This is the gap after all cash income, including welfare payments, has been counted. The 1981 policy changes account for about $1 billion, nearly all of it in AFDC. The rest of the increase, the other $9 billion, is the result of the recession.

When the major in-kind transfer programs in the safety net are included as income to the recipients, the poverty gap is smaller, and it increases by a smaller amount, from $18 to $26 billion. Less than half of that $8 billion increase can be attributed to the budget cuts of 1981. These programs include food stamps, school lunches, and also the value of subsidized housing and Medicaid.

As an aside, it may be worth noting that the total amount of these in-kind benefits is greater than the poverty gap. It has been each year since at least 1970. But these programs do not serve to close the poverty gap completely, because the benefits are not limited to people in poverty, and also because part of the benefits to people in poverty lift them above the poverty line. The changes enacted by Congress in 1981 have had the effect of closing a larger share of the poverty gap, by targetting benefits more narrowly on the poor. In 1979, just over 40 percent of these in-kind benefits went to close the poverty gap. In 1982, the figure was almost 60 percent.

Budgetary considerations are not the only, or the most important, criterion for evaluating the policy changes of the

last few years, or the status of the "safety net." Much depends on the reactions of state and local governments, including the ways in which they respond to the greater administrative and programmatic latitude offered them. Much also depends on the reactions of the working poor, and those of the poor who may be able to work, to the changes if the AFDC, Food Stamps, and Medicaid programs. We have only preliminary evidence on these points. It does appear that, in general, the working poor have chosen to continue working and have left the welfare rolls, rather than dropping out of the labor force. But further evaluations over a longer period will be needed before a final judgment can be reached.

Conclusion

Clearly there has been a change in the momentum of policy, if not the direction. The growth of safety net programs has been slowed if not halted, and the safety net has not been extended further.

But the effects of this change in direction on the welfare of most households have probably been small. The changes in the income maintenance programs turn out to be less significant than much of the public discussion would suggest. The "safety net" has probably been maintained, particularly for the poorest people. If there is an issue of fairness, it seems to center on the working poor. The changes in the income distribution that have occurred in the last four years probably owe more to general economic conditions, particularly the 1981-82 recession and the 1983-84 recovery, than to any of the policy changes instituted in 1981.

TABLE 1: "SAFETY NET" EXPENDITURES, 1960-1980
(in billions of 1985 dollars)

	1960	1965	1970	1975	1980
Aid to Families with Dependent Children	6.9	8.7	10.5	7.5	9.5
Supplemental Security Income	4.8	5.6	4.7	8.8	8.3
Food Stamps and Child Nutrition	0.8	0.9	2.5	12.2	18.1
Medicaid	0	0.9	6.9	12.6	18.2
Subsidized Housing	0.5	0.6	1.2	3.9	7.0
Other	0	0	0	0	4.0
TOTAL	13.0	16.8	25.7	46.9	65.6

SOURCE: OMB, Budget of the United States Government, various fiscal years.

TABLE 2: PROPOSED AND ACTUAL "SAFETY NET" EXPENDITURES, 1980-1985
(in billions of 1985 dollars)

	1980	1981	1982	1983	1984	1985
Carter FY1982 Budget (January 1981)	---	69.8	70.4	73.7	73.6	75.7
Reagan Revisions (April 1981)	---	69.1	62.6	62.8	59.8	60.5
Reagan FY1983 Budget (February 1982)	---	---	70.0	63.5	62.6	62.3
Actual Outlays	65.5	70.1	66.8	72.2	72.9	74.1

Source: OMB, Budget of the United States Government, fiscal years 1982 through 1986; Additional Details on Budget Savings, April 1981.

TABLE 3: FEDERAL PROGRAM EXPENDITURES RELATIVE TO THE POVERTY POPULATION, 1960-1983
(in 1985 dollars)

YEAR	OUTLAYS PER POOR PERSON
1960	$ 325
1965	525
1970	1,025
1975	1,875
1980	2,275
1981	2,250
1982	2,000
1983	2,075

Sources: OMB, Budget of the United States Government, various fiscal years; Census Bureau, Money Income and Poverty Status of Families and Persons in the United States: 1983 (Consumer Income, Series P-60, No. 145)

STATEMENT OF ROBERT GREENSTEIN
DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

I appreciate the opportunity to appear before the Subcommittee today as it considers issues related to the food stamp reauthorization. I would like to comment first on several matters relating to the current status of the food stamp program before turning to legislation pending before the Committee.

The profile of the food stamp program

In recent years, the profile of the food stamp program has changed--and the program now serves an even needier population than in the past. A USDA analysis of the food stamp caseload found last year that:

* 95 percent of all food stamp household now have gross incomes below the poverty line. (A subsequent study prepared for USDA and released recently placed this figure at about the same level, 93 percent.)
* 98 percent of all benefits go to households below the poverty line.

The USDA study also found that a growing proportion of food stamp households are from the very lowest income category--those with gross incomes below half the poverty line.

* 42 percent of all households have gross incomes below half the poverty line.
* Among households with children, 51 percent have incomes below half the poverty line.
* 59 percent of all benefits go to households below half the poverty line.

In a number of important ways, the food stamp program is different today from the program of the 1970's. The income profile of the program is much lower now than it was then. In those years, 75 to 90 percent had incomes below the poverty line. Today it is 95 percent. In addition, in 1980, 27 percent of food stamp households with children were from the poorest group, those with incomes below half the poverty line. Since then, this figure has climbed to 51 percent.

Moreover, food stamp participation has stopped growing--and has started declining. By the latter half of 1984, participation had fallen to its lowest level in nearly five years. Participation in the latter half of 1984 was several hundred thousand persons below 1980 levels, despite the fact that the number of persons below the poverty line was 4-5 million higher in 1984 than in 1980 (and the unemployment rate was at about the same level). This is a striking development.

Several recent studies have taken note of the fact that food stamp participation has fallen well behind the increases in the poverty population. In a study issued last month, the Congressional Research Service reported that the percentage of children in poverty who receive food stamps fell from 76 percent in 1978 to 69 percent in 1982.

In a study transmitted to Congress last week, USDA reported that food stamp participation is below where all its forecasts and economic models indicate it should be and is falling further

each year. The report finds that after economic factors and budget reductions are taken into account, the program has 600,000 fewer participants than all the historical data and economic analyses can explain.

No one is sure what is causing this decline in participation. What we do know is that the program has been tightened--and reduced in scope--considerably more than has generally been recognized. When the food stamp program was up for reauthorization four years ago, one criticism was that the program was growing "out of control." Whether or not that was actually the case in 1981, it surely is not the case today. The program appears to be serving a smaller proportion of those who are eligible than it has at any time since the implementation of the 1977 Food Stamp Act.

Hunger and Poverty

As the Committee considers food stamp legislation this year, I hope it will also be against the background of developments relating to hunger and poverty.

From 1978 to 1983, the number of Americans below the poverty line rose over 10 million, from 24.5 million to 35.3 million. This represents an increase of 40 percent, unprecedented since we started measuring poverty. The increase is even greater if we use an alternative measure of poverty that takes non-cash benefits into account.

The increase in poverty has been greatest among children. The number of children in poverty, according to the Census data, has risen 51 percent since 1979. One in every four U.S. children below the age of six is now poor, with two of every five Hispanic children below age 6 and one of every two black children in this age group being poor.

To be sure, the poverty rate is expected to come down some in 1984, but only to about 34 million persons. The numbers in poverty are expected by most analysts to remain stuck on a plateau 8-10 million persons higher than in 1978.

Along with the increase in poverty has been an apparent increase in hunger. There has been much contention about how many persons are hungry, but the bottom line, as the President's Task Force on Food Assistance found and reported last year, is that "hunger remains a significant problem throughout our nation."

For some time, there was a fair amount of debate between those who argued that cuts in the food programs had caused a large upsurge in hunger and those who denied that a hunger problem existed. I think the evidence increasingly indicates that both of these positions were mistaken. The problem of hunger is real, but it is caused by many factors. Federal budget cuts in food programs probably were not the principal cause here.

The rapidly rising inflation of the late 1970's and early 1980's, followed by the economic downturn, clearly took a toll. Rapidly rising energy costs meant that home heating bills took up a far larger percentage of poor families' limited incomes, leaving less for other necessities such as food.

In addition, the decline of the stock of very low rent housing units due to such factors as urban redevelopment, forced many of the poor to devote increasing shares of their incomes to rent.

Budgetary changes also played a major role--but the biggest effect here was probably in programs other than the food programs--and at the state level as well as at the national level. AFDC benefits continued their precipitous decline. By 1985, they have fallen 37 percent below 1970 levels, when adjusted for inflation.

Even more striking, the Congressional Research Service recently found that AFDC and food stamp benefits combined are now just about down to the level of AFDC benefits alone back in 1960, before the food stamp program was even created.

The unemployment insurance system has also contracted sharply. Last month, 31 percent of the unemployed received unemployment benefits. A number of years ago, the percentage was about twice as high. Both federal and state changes in the program have figured here.

Finally, real wages for many low income families have dropped as the minimum wage has remained frozen.

All of these factors help explain why so many more food stamp households now fall into the poorest categories--and why poverty and hunger have risen.

But while the 1981 and 1982 reductions in federal food assistance programs appear not to have been the principal cause of the problems we face, I do not think this should be the crucial issue in determining what direction the food stamp prgoram should now take. What matters most is that whatever the cause, poverty is more widespread today and hunger is more serious.

In addition, energy prices cannot be returned to 1977 levels, nor can the low income housing stock suddenly be restored. Similarly, neither AFDC benefits nor unemployment insurance will return to 1970's levels. This means that the food stamp program is even more desperately important than it used to be. This makes it critical that there be a commitment to enact no further benefit cuts in the program this year.

President Reagan said in a speech to the nation on the budget in April:

"One area we will not touch is the safety net for needy Americans. Programs that provide income, food, housing, and medical care for the neediest Americans were reformed in 1981 and are now targeted to genuine need." I very much hope that the Congress follows such a course this year.

Legislation before the Committee

The Committee soon will consider food stamp legislation. A number of bills are now before the Committee.

I would urge support for S. 1142, Senator Dole's bill, and hope that it would be the basis for the Committee's decisions on food stamps this year. The bill avoids further benefit cuts while satisfying the requirements of budget constraints.

I would hope that the Committee could also consider some of the provisions of S. 1189 and S. 1103 (the Melcher and Harkin bills) to the extent that budget constraints allow.

But I am deeply troubled by S. 616, Chairman Helms' bill. This bill would cut benefits for every elderly person, every poor child, every low income person in the program--and would force hundreds of thousands, perhaps millions, out of the program altogether, despite their poverty. The bill is not consistent with the President's pledge that there will not be further cuts in safety net programs for needy Americans.

The bill includes such provisions as:

* restoring the food stamp purchase requirement: When the purchase requirement was eliminated in 1977, several million poor individuals who had always been eligible but previously could not afford to buy food stamps, entered the program. The impact was greatest in poor rural areas (with the impact being relatively minor in big cities). If the purchase requirement is restored, as many as 3 million poor persons, many in rural areas, would effectively be pushed out of the program. There is little to recommend this provision--it would also add administrative complexity, and the potential for fraud would increase as thousands of private vendors handled billions of dollars in federal cash.
* freezing benefit levels: S. 616 would freeze the thrifty food and food stamp deduction levels, so that benefits would be greatly out of date. For example, benefits in any year would reflect the cost of the thrifty food plan 1-2 years earlier. President Reagan, Senator Dole and Senator Domenici have all stated this year that cost-of-living adjustments in programs for the poor should not be frozen. S. 616 is not in accord with this principle.
* eliminating hundreds of thousands of the working poor: In 1981, food stamp income limits were set at 130 percent of poverty line, the level recommended by the Reagan Administration. S. 616 would lower the limit over time to 100 percent of the poverty line. This means that low income working families whose gross incomes are between 100 percent and 130 percent of poverty, but whose net incomes are below poverty after taxes, work expenses, and such expenses as high shelter costs are taken into account, would have their benefits cut off entirely. Between 500,000 and 1,000,000 persons woud eventually be terminated, with the heaviest impact falling on the working poor. In addition, a large benefit "notch" would be created, which would build major new work disincentives into the structure of the program.
* Grace Commission recommendations: The Helms bill also includes three Grace Commission recommendations that would result in dramatic benefit reductions. There are: a proposal to cut benefits for families with children eligible for free school lunches (a similar proposal was rejected 14-3 by this Committee in 1981 when it was found that close to half of all very poor households with incomes below half the poverty line would have their benefits cut); a proposal to eliminate the $10 minimum benefit for one- and two-person households, which would reduce or terminate benefits for several hundred thousand elderly or disabled

persons (this was rejected by the Committee in 1982); and a new proposal to recompute and reduce basic food stamp benefit levels for all households, a proposal that would cut benefits over $700 million a year and would reduce benefits for every household in the program (except those getting the $10 minimum benefit).

It has been recognized for some time that the recommendations made by the Grace Commission consist both of useful recommendations to improve management efficiency and reduce waste, and of proposals to make sweeping--and frequently undesirable--policy changes in basic benefit programs. Last year, the Congress adopted a useful Grace proposal designed to promote wage matching and reduce unearned income errors in food stamps, AFDC, and SSI. The Grace proposals in S. 616, however, have nothing to do with management or efficiency. They are massive benefit cuts, pure and simple, and would cause severe hardship.

Several months ago, CBO analyzed the Grace Commission food stamp proposals and found that 90 percent of all households--and 99 percent of all households with incomes below half the poverty line--would have their benefits reduced under these proposals. 6.5 million households would have their benefits cut, with the average loss being $235 a year.

The largest cuts would result from the proposal to recompute and reduce basic benefit levels. This proposal alone woud cut benefits for 6.5 million households, including 99 percent of households with children and virtually all households in the "poorest of the poor" (below 50 percent of poverty) category.

These are only a few of the benefit reductions in S. 616. At least eight other significant benefit cut provisions are also included, such as a provision that would reduce or terminate benefits for poor families who double up and share living quarters (an increasing problem in urban areas where not enough low rent units are available). This proposal was discussed and explicitly rejected by the President's Task Force on Food Assistance last year because it would cut benefits for 100,000 - 200,000 persons.

Another provision of S. 616 would reduce or terminate benefits for poor students who receive scholarships to cover tuition costs. The part of the scholarship going for tuition would count as though it were available for food, and students' food stamps would be cut accordingly. Since the only students allowed into the program in the first place are poor students who are handicapped, caring for children, or working as well as attending school, there are the people who would be affected. For example, a tuition scholarship provided to a handicapped student would be counted as income available for food, and the student's food stamps would be severely reduced or terminated.

The bill would also eliminate the requirement that states provide food stamp benefits within five days to eligible households that are destitute and have little or no income and assets.

States would be given up to 30 days to provide benefits even in emergency cases.

Finally, the bill would eliminate virtually all poor farmers from the program by requiring the value of the farm to be counted as an asset against the program's $1,500 assets limit. Most farm families would be made ineligible, even if the family was impoverished and had little or no cash available for food.

Error rate sanctions

In addition to these benefit reduction provisions of S. 616, there are two other major areas of concern--error rate sanctions and block grants.

S. 616 proposes to substantially increase fiscal sanctions on states. I believe such a move would be a serious mistake.

The sanctions under the current error rate sanction system, which was authored by Senator Dole in 1982, are substantial. Sanctions for errors committed in fiscal year 1983 will amount to about $10 million. Sanctions for errors in fiscal year 1984 will amount to approximately $70 million. For errors in fiscal year 1985, the sanctions will come close to $200 million.

These sanctions grew from 1983 to 1985, although error rates are expected to drop during this period. This occurs because the 1982 law purposefully phased in the new, much stiffer penalties.

There is no evidence to show that the current system is inadequate. When the sanction system was enacted in 1982, error rates were close to 10 percent. Following enactment of the new sanction system, error rates fell to 8.36 percent in 1983.

Several years ago, when the Administration submitted a proposal to increase sanctions, CBO analyzed the proposal and concluded it would not result in lower error rates, just in bigger sanctions--and that the principal effect of larger sanctions would be simply to shift costs to states.

I would also note that while some may believe the food stamp program is more poorly managed than programs such as Medicaid and AFDC, a careful review of the evidence does not bear this out.

The food stamp error rates is 8.36 percent, while the Medicaid error rates is about 3 percent. But the food stamp program counts as errors both: 1) payments provided to ineligible households, and 2) overpayments provided to households that are eligible but receive larger benefits than they should. By contrast, Medicaid counts in its error rate only the benefits provided to ineligible households--and does not include in the error rate excess benefits provided to households that are ineligible.

This is of major significance. Excess benefits provided to eligible households comprise over half of all food stamp errors. If the error rate were measured the same way in food stamps as it is in Medicaid, the food stamp error rate would be 3.6 percent.

A close examination of AFDC and food stamp error rates reveals the same type of story. The AFDC error rate, at 7.3 percent, is below the food stamp error rate of 8.36 percent. But the AFDC and food stamp caseloads are different.

HHS studies have found that AFDC error rates are three times higher among families with earnings than among those with no

earnings. And USDA data show that nearly half of all food stamp overpayments stem from errors relating to earned income.

Only 6 percent of AFDC households have earnings. 18 pecent of food stamp households have earnings. If the proportion of the food stamp caseload with earnings were as low as the proportion of the AFDC caseload with earnings, the food stamp error rate would be as low (or lower) as the AFDC rate.

The second most common source of food stamp error involves unearned income. Here, too, differences in caseload result in a higher food stamp error rate. The percentage of food stamp households with unearned income is over four times greater than the percentage of AFDC households with unearned income.

Finally, HHS studies show that error rates are much higher for two-parent families than single parent families--and the food stamp program has far more two-parent families than AFDC.

In short, differences in what is counted as an error account for most of the divergence between the food stamp and Medicaid error rates, and differences in the composition of the caseload account for all of the differences between food stamp and AFDC error rates. AFDC consists largely of single-parent households with no other income, earned or unearned. The food stamp program is available to all persons who are low income, and includes the working poor, single individuals, two-parent families and many others whose incomes fluctutate and are consequently more "error prone."

This examination of the differnces in the definition of errors and in program caseloads also shows, I believe, that it is proper to have a 5 percent error rate tolerance in food stamps while maintaining a lower tolerance in AFDC and Medicaid. The tolerances should <u>not</u> be set at the same level for these programs when the definition of error and the nature of the caseloads are so different. To achieve the same error rate in food stamps as in AFDC or Medicaid would require superior--not equal--management performance.

This issue of sanctions is especially important because many states, if faced with increased sanctions, are likely to take the money from other parts of the public assistance budget, and especially from AFDC. It would be relatively easy for many states to forego even partial cost-of-living increases in AFDC to pay an enlarged food stamp sanction. If this occurred, the losers would be low income children.

For these reasons, I urge the Committee to leave the sanction system which was enacted in 1982, and is itself a tough system, in place. I would note that the Administration has not proposed any change in the error rate sanction system this year.

<u>Block Grant</u>

I am also greatly concerned about proposals to authorize the food stamp program to be block granted, at state option. Block grants in the food stamp program represent a fundamental, philosophical shift in the program. Food stamp block grants would have very serious consequences. I have tried to summarize some of these consequences here.

Benefit Reductions During Recessions

* One of the outstanding features of the food stamp program, as currently constituted, is that it can respond immediately to changes in the economy or to demographic changes. It is not possible for a block grant to respond to economic or demographic changes in this manner. If unemployment rose and the economy turned down, a block grant would result in serious hardship.
* Under the current food stamp program, more food stamps are automatically provided in a state if unemployment rises and more persons become poor in the state. The key feature here is that a needy family has an entitlement to these benefits. If the family or the children are needy enough to qualify, they are assured of receiving benefits regardless of what state they live in.
* Under the block grant, however, the entitlement to individuals would end. States would receive fixed amounts of funds. If the amounts proved insufficient, benefits would have to be cut or needy persons left out of the programs.
* This is an especially important issues because the number of persons needing assistance fluctuates in a state as economic and demographic conditions change. It is simply not possible to design a fixed grant program that adequately responds to changing needs.
* USDA claims to have addressed this issue by authorizing the Secretary to take state unemployment levels and "other factors" into account in determining a state's block grant level. This turns out, upon close examination, to answer the problem, however. Under block grant programs, the annual grant amount is traditionally set at the beginning of the fiscal year. This means that the Department would have to rely on state unemployment data for the previous fiscal year--which would be of no help to needy citizens in a state if unemployment rose during the fiscal year the block grant covered.
* In such circumstances, states receiving a fixed amount of funds at the beginning of the fiscal year (through the block grant) would not receive additional funds to meet increased needs if the state's own revenue bases contract during recessions, states experiencing the newly unemployed, cutting benefits across the board, or raising taxes during an economic downturn.
* In theory, block grant amounts could be adjusted during a fiscal year to reflect unemployment changes. In practice, however, this is unworkable. No adjustment during the course of a fiscal year could possibly keep up with changing unemployment conditions in a state. Monthly state unemployment rates are not known until 2-3 months after the unemployment rate actually rises or falls in a state.
* In addition, states would not be able to adjust their programs to meet the needs of the newly unemployed until USDA adjusted the state's grant--and USDA would generally not be able to take this action until it received several months

old state unemployment rate data and subsequently received a supplemental appropriation based on this data.

* Moreover, USDA would not know how much to adjust a state grant if unemployment rose. CBO and USDA analyses have found that each recession affects food stamp eligibility and enrollment differently, depending on a series of factors that are not well understood. A new study of the impact of the 1981 food stamp act that USDA transmitted to Congress on June 3 acknowledges that "the relationship between the food stamp program and the unemployment rate is far more complex than previously thought." The study finds out the impact of unemployment on food stamp participation and costs is affected by such numerous and diverse factors as the average duration of unemployment, the proportion of the unemployed receiving unemployment benefits, the particular point the economy is at in the business cycle, and changes in the inflation rate, consumer expenditures, personal savings, poverty rates, and the composition of the labor force. State data for many of these factors are not available. Obtaining these data and making reliable predictions on what course these factors will follow during a fiscal year is a virtual impossibility.
* To make the problem worse, USDA also would not know how to adjust the block grant to reflect something so basic as changes in a state's low income population. State population data is typically several years out of date. In addition, there is no good source of information--outside the decennial Census--on demographic shifts that can affect food assistance needs, such as changes in the number of elderly or children in a state.
* In short, the block grant approach is incapable of assuring that when additional needy persons apply for food stamps in a state, the funds will be there to meet the increased need on a prompt basis.
* The fact that USDA does not know how to make these adjustments is reflected in the fact that no adjustment formulas are written into the proposed legislation. Instead, there is vague language giving the Secretary authority to make adjustments however he sees fit. The legislation really gives the Administration a blank check on whether, when, and how to make most economic and demographic adjustments.

Potential for Increased Errors

* The block grant is also likely to lead to poorer management. Currently, states must lower food stamp error rates substantially or face major financial penalities. The block grant would wipe out the penalties. Under the block grant approach, a state could have a high rate of fraud and waste--and it would face no sanctions at all. The pressure to reduce errors would be off. It is likely that some states with sigfnificant error rates would opt for the block grant precisely to escape federal fiscal penalties and the acute political embarrassment they can cause for state officials.

Harm to Poor Families and Children

* The food stamp program is now the only benefit program in the United States that provides a national benefit floor for poor families with children. Under a block grant, this would be lost. Instead, the block grant approach could lead to food stamp benefit reductions for certain types of poor families who generally have little political clout, such as poor women and children.
* The history of cash welfare programs bears this out. In these programs--where benefit levels are generally set by the States--women and children get substantially lower payments than the elderly and disabled, and two-parent and childless families frequently receive no benefits at all.
* In 1984, there were 15 states in which a mother and two children with no other income received less than $250 a month (OR $3,000 a year) in AFDC payments. This is only 36 percent of the poverty line. And in over half the states, no AFDC benefits are provided to a family, no matter how poor it is, if both parents are present. There is every reason to fear that under the block grant approach, the same political factors could lead a number of state legislatures to reduce food benefits for families and children.
* In addition, one of the outstanding features of the current food stamp program--the fact that it automatically helps to narrow the gap among state welfare payment levels by providing more food benefits to mothers and children who are poorer because their state pays low welfare benefits--would be lost.
* This is not an idle fear. In the 1960's, when states set their own food stamp eligibility limits, some states set the eligibility cut-offs at only about half the poverty line.
* Under the block grant approach, states could set benefit levels for poor families at such reduced levels that (when combined with low welfare payments in those states) this could lead to migration of families out of these states and into other states where benefits were much more generous. This would place unfair burdens on the states to which these families migrated.

In short, the food stamp program should remain a national program. Hunger and poverty are national problems. It was President Nixon who established national eligibility and benefit standards for the food stamp program to assure that low income families--regardless of age or family composition--need not face hunger or malnutrition. He took this action after medical researchers found in the late 1960's that when each state was left to design its own program, major gaps in coverage--and major problems of poverty-related hunger and malnutrition that far exceed the problems we have today--resulted.

S. 1142 and the Budget

Finally, I would like to note one disappointment with S. 1142. This is that the food stamp assets provisions included in last year's Dole bill (and recommended by the President's Task Force on Food Assistance) are not included. I understand that this provision was not dropped for policy reasons, but purely on budgetary grounds--to fit the bill within the food stamp ceilings assumed in the Senate budget.

I would hope that in the conference on the budget, the food stamp reductions assumed in the Senate budget might be removed, in return for House agreement to greater savings in other areas. If this were to occur, I would hope that S. 1142 could be modified accordingly. This would likely allow the inclusion of the assets provisions included in the Dole bill last year.

The assets limits now in the food stamp program ($1,500) were originally established by the Nixon Administration back in 1971. The cost-of-living has risen 163 percent since then. Today, the food stamp asset limit for a family of four (or six or eight) on food stamps is nearly 40 percent below the assets limit for a household of two on SSI. As the President's Task Force noted, many of the newly poor who are truly in need of food aid are now barred from the food stamp program by assets limits made more stringent than was originally intended, by the effects of inflation.

STATEMENT OF RUTH FLOWER
FRIENDS COMMITTEE ON NATIONAL LEGISLATION

I am Ruth Flowers, Legislative Secretary for the Friends Committee on National Legislation. This is a Quaker organization, founded over forty years ago to represent the views of like-minded Friends on issues of peace and justice in our nation's capitol. I thank the chairman and members of the subcommittee for the opportunity to speak with you today.

I would like to focus my remarks on two concepts that seem to be woven into all the discussions of food stamps and other programs to assist the poor in this country. The first concept is the role of work and welfare. The second is the relative values of national and local programs.

Work and Welfare

The theme of work arises in connection with all the welfare programs. In fact, this point is at the center of current debate: To what extent should society give assistance to people who can work or who are working? There have been proposals that those who are receiving public assistance should be required to work for their benefigs; and other proposals that those who are working on their own initiative should be cut off from assistance. The theme of work is used in defining the "deserving poor: and in determing the relative responsibility of government and others for the fact of poverty. The food stamp bills before you today present a number of work-related issues, include:

* Adjusting the earned income deduction
* Requiring states to institute "workfare" programs
* Extending work requirements to mothers of pre-school children
* Including stipends under the Job Training Partnership Act in calculations of income
* Revising the job search requirements.

Quakers join with many other religious denominations in honoring work as a way of participating in society. We support the goals of full employment and the various means to that end, including job creation, employment training and placement for all those who are employable. We also recognize, however, that "work includes a multitude of socially valuable activities, unpaid as well as paid." And we believe that the right to "an income sufficient to maintain health and dignity" is contingent not on successful employment, but on the simple fact of human existence. (FCNL Statement of Policy, November 1981).

The Friends Committee has joined recently with representatives of other denominations in issuing the "Call to End Poverty in the United States" (attached to this testimony). In this statement we point out five policy directions that we believe could substantially reduce and ultimately eliminate poverty in this country. Four of those five policy directions relate to the employed or potentially employable poor. The are:

* Creating jobs in the public sector
* Developing jobs in the private sector
* Removing barriers to employment
* Reforming the tax code (to eliminate the income tax burden borne by the poor).

Work Related Strategies Affecting the Poor

In our research related to the "Call to End Poverty", we learned some very useful facts about the working or employable poor. We learned that 35 percent of all poor households are headed by someone who is either employed full time (8.5 percent) or someone who is apparently employable, but is working less than full time, year round (26.4 percent). (See Table A and Note 1). This group, about nine million households in all, presumably could escape poverty permanently through a well-designed and implemented employment strategy. The question is: What should that strategy be? The following strategies have been incorporated into or proposed for the food stamp program.

Exclusion from assistance: In the food stamp program, as in other public assistance programs, a number of differnet strategies are represented piecemeal. One strategy rests on the assumption that the root cause of unemployment among these household-heads is inertia. Proponents of this strategy would deny benefits to categories of people who are presumed to be employable (single people, male heads of households when two parents are present, and female heads of households with no small children). The value of this strategy should be measured by its effectiveness in reducing poverty. How many people in this jobless category are better able to find and keep good jobs because of lack of government assistance? Charles Murray, author of Los-

ing Ground, asserts that desperation is a great teacher, and that the working-age poor would more readily and successfully depend upon their own resources to achieve a decent standard of living if government assistance were not available.

Although it is not possible to quantify accurately the results of this strategy, some recent economic trends can give us some clues. If Charles Murray's theory were to hold true, the poverty rate should go down when eligibility for public assistance is restricted. In 1981 and 1982, changes in eligibility for the food stamp program removed about 2 million people from the program. But the poverty rate did not go down; in 1983 and 1984, the poverty rate continued the rise that had begun in 1979.

Workfare: Another approach related to that of excluding some people from public assistance programs is the strategy of requiring that recipients work in exchange for benefits through "workfare" programs. Workfare programs have received mixed reviews. States have found them expensive to operate. Some counties have been unable to find jobs for participants because of high unemployment in their regions. Some workfare participants have been cut off of public assistance due to non-cooperation with the workfare program. Often, their "non-cooperation" has arisen from the same kinds of complications that keep them from being employed (e.g. the need to be at home when a nine-year-old mentally retarded child returns from school). At the same time, some states and counties have heard very positive comments from workfare participants. Many participants express a strong desire to work. Some feel they are getting training and experience that will enable them to move on to permanent employment. The real test of workfare programs should be the validity of that hope: Are workfare participants moving into permanent employment with adequate wages to raise family incomes above the poverty level? If a particular workfare program is successful in meeting this objective, what aspects of the program are having this positive effect?

The FCNL supports work programs that enable potentially employable public assistance recipients to move into the job market and to obtain useful employment at wages adequate to support a healthful life for themselves and their families. We oppose mandatory workfare, however, because most such programs (a) do not provide the training and supports needed to make a transition into the job market, and (b) exclude people from basic survival assistance when they (or members of their family) do not conform to the rules of the program--an unjustifiably heavy-handed sanction.

Work Incentives: A third approach assumes that lack of motivation plays a big role in unemployment. Adherents to this belief offer "work incentives" to people who are receivng food stamps and other public assistance benefits. These work incentives amount to formulas which allow recipients to receive a small amount of public assistance benefits, for a limited period of time, after they begin employment. However, the "work incentives" are neither generous nor broad enough to actually "reward" a recipient for taking a job. In the short run, welfare and food stamp recipients "lose" income when they take most

entry-level jobs. As the graphs below illustrate (See Note 2), a single mother of two in Pennsylvania would have $5468 of disposable income (in 1983) if she had no earnings and accepted only public assistance. If she takes a minimum wage job (at about $6,000 per year), she loses all AFDC and Medicaid benefits and begins paying federal and state income tax. Her disposable income at that level of earnings will be $4628 (including food stamps and the earned income tax credit). Her disposable income will not surpass her "no earnings" level until she earns $9,0000 per year. At $10,000 per year, she loses eligibility for food stamps and the earned income tax credit.

Although the "work incentives" cushion the income fall when a householder begins employment (see graph II) they do not draw the recipient into employment by offering new levels of wealth. In this example a welfare recipient who takes an entry level job has to have more than enough motivation to make up for an 18 percent drop in income, to a level equal to only about 60 percent of the official poverty line.

Continuing assistance for householders in low-paying jobs is a useful government policy, allowing employable people to move into the job market, even though a pure market economy cannot always offer adequate wages for a worker to support a family. Providing wage supplements in the form of cash assistance, food stamps and other in-kind services for low income workers is one of the ways the government subsidizes and sponsors our free market economy.

These work strategies--exclusion from programs, workfare and work incentives--have been largely unsuccessful in moving families with employable heads-of-households permanently out of poverty. The underlying assumptions for these approaches, that inertia or lack of motiviation cause unemployment among the poor, are not borne out by the experience with these approaches. To undertake a serious effort to engage the employable poor in the job market, the failure of these approaches should be examined critically.

The objective still seems to be a good one: If employable heads of households could establish a stable connection with the labor market, earning sufficient wages for the support of their families, they could move their families permanently out of poverty. What gets in the way of employment?

A comprehensive review would probably reveal a number of obstacles, not the least of which is a lack of jobs. The nation's industrial base is undergoing rapid change. New technologies are reducing the size of the labor force needed in manufacturing industries. At the same time, new communications developments allow U.S. companies to re-locate parts of their operations to other parts of the globe where labor costs are minimuzed. New jobs created in this country by these developments require specific skills. Well-trained individuals can advance rapidly in the new industries; others are left behind. Meanwhile, the service sector of the economy is growing rapidly. There are jobs available in service industries (such as restaurant and tourist businesses, but those available to people with few skills are notoriously poor paying. Unlike manufacturing

companies, service companies do not routinely offer advancement to higher paying and more responsible positions.

Inferior education and lack of job training also impedes the progress of many otherwise capable adults out of poverty. Although major improvements in elementary and secondary education have been made in the past decade, there are still too many youths who are not acquiring the basic tools they need to operate successfully in this society.

Racial discrimination and discrimination against women continue to restrict job opportunities for women and minorities, while the lack of affordable child care hampers the efforts of single parents to find and keep good jobs.

Finally, the fact is that many full time jobs simply pay too little to maintain a family above the poverty line. Approximately 8.5 percent of poor households are headed by persons who are working full time, year round. Yet the earned income of this group (about 2.2 million households) is insufficient to meet the minimal needs of their families.

What Can the Food Stamp Program Contribute to a Comprehensive Employment Strategy for the Employable Poor?

The food stamp program can work hand in hand with other government and private efforts to engage potentially employable heads-of-households in the job market. There are several specific points at which the food stramp program intersects with employment strategies that are specifically designed to overcome some of the obstacles and barriers described above.

Education and Training: Both government and private organizations offer basic and specialized education programs and classroom and on-the-job training programs. Public assistance programs, including food stamps, should be designed to facilitate participation in such efforts.

The food stamp program has traditionally supported education and training activites, but that strategy was severely restricted in 1981, when most students were eliminated from the program. Now, even vocational training students who are heads of households are excluded from the food stamp program, because they are considered to be in a "non-degree" program and therefore ineligible. We recommend that full time participation in education and training programs be recognized as "work" and that participants who are otherwise eligible for food stamps not be excluded from the program.

Child Care: The food stamp program recognizes a very limited deduction for child care expenses: $134 per month for both child care and unusual shelter costs. Child care is very difficult to find and almost always costs more than $134 per month. We recommend that actual child care costs be recognized as a deduction from gross income when figuring both eligibility and benefit levels.

National Availability: In order to encourage unemployed families to relocate if necessary to obtain employment, it is important that the nationwide availability of food stamps be maintained, so that families in this situation can be assured of

at least this small level of assistance if they are not able to find adequate employment immediately after relocating.

Income Supplements: Food stamps have helped to make it possible for a family-head to leave welfare and take employment, because the program supplements the family's income up to and beyond the poverty level. Now that welfare benefits are unavailable after the fourth month of employment, food stamps are the only remaining income supplement to help bridge the transition out of poverty. It is important that the food stamp program retain this income supplement role, and continue to make limited amounts of assistance available to low income workers regardless of the length of their employment.

The objective is to move people out of poverty--not merely to get them off the rolls of the various public assistance programs. The problem of poverty will continue to nag at this country's conscience until a serious, comprehensive strategy is adopted to end it. the food stamp program can play an important part in that effort. But in order to help end poverty, the program must be designed with that objective in mind.

Food Stamps--A Nationwide Program

In 1981, the administration proposed that the food stamp program be shifted to the states in a "block grant". That proposal was one of several which were intended to save federal spending on social programs. Congress and the states rejected the block grant proposals, except for Puerto Rico. But the debate about state vs. federal control and funding of social programs has continued. This year the administration has renewed its proposal for a block grant option in the food stamp program.

The policy of the Friends Committee does not favor federal over local or state programs as a matter of principle. Our policies speak, rather, to issues of economic justice. The question for us is this: What level of government can best perform the appropriate government role in helping to bring poverty to an end? We conclude that the federal government is the most appropriate level for redistributing income and resources in order to provide for the basic survival needs of all the people of this country. State and local governments, in cooperation with the private sector, are the most appropriate entities for negotiating and implementing permanent solutions to poverty in their areas.

Our conclusion arises from both principle and practicality. Principles of justice require any nation as wealthy as ours to meet the basic needs of all of its citizens. We like to think that we are a nation of hard-working, "self-made" people. To an extent, that's true. But it is also true that the rich physical and human resources that make up the foundation of this country were not earned. We share a heritage that provides enough material goods to allow all of us to survive. Any economic system we set up on that foundation should preserve that access to the things needed for basic survival. Because of regional differences, that access is best preserved by a nationwide effort.

Poverty is a national problem--a product of the national economy. At least thirty-five million people in the country are

considered to be unable to meet their basic needs. If these people were all concentrated in one region--and if their poverty was due to visible disaster such as a natural calamity or the failure of several related regional industries--there would be a little question that the federal government would have an important and appropriate role in helping to restore these citizens to a decent life. The population of all the Western states, combined, or the combined populations of Ohio, Pennsylvania, Indiana, Virginia and West Virginia come to about 35 million. If virtually all the citizens of these states were suddenly left destitute, would there be any question but that the federal government should "bail them out"? As it happens, the poor are dispersed through all the states. But the states have no more control over their economic situation than they would have in the example of the regional disaster. The economy--and all its effects--are the business of the federal government.

As a practical matter, only a nationwide program can provide the assurance, the flexibilty and the effectiveness of the food stamp program that has been operating for the last dozen years. Direct federal funding for the food stamp program is essential as a means of responding to regional differences in economic trends. Months after most of the country was celebrating the end to the recent recessions, there were small geographic pockets in the midwest and northeast that there were still experiencing depression-level unemployment rates. When a state or regional economy suffers, the tax base for the state (whether based on corporate, individual or sales taxes) also suffers. Just when the needs for cash assistance and support services are at their peak, the revenues available to the state are a low point. The federal government can temporize some of these differences and help struggling states to get back on their economic feet.

The flexibility of the food stamp program would be severely restricted by the block grant approach. In the material distributed to states explaining the optional block grant proposal, the administration describes two avenues for flexibility in case of unforeseen economic downturns, rises in population, etc. First, the administration says, the states may exercise their "administrative flexibility provided by the grant to alter benefit levels or initiate other action to compensate for shifts in program caseload." In other words, the level of funding to states is <u>not</u> expected to remain flexible enough to accommodate local fluctuations in the economy. The materials also suggest that "interim adjustments" in the grant are possible during a fiscal year. But the program will be funded, like all other discretionary programs, through an appropriations process. The Secretary of Agriculture will not have additional funds available with which to make necessary adjustments. The clear intention of the plan is to replace the food stamp entitlement program with "finite funding of the nutrition assistance grant". Any flexibility gained by the states in this arrangement comes directly out of the benefits now available to food stamp recipients.

The nationwide program provides certain assurances of eligibility and benefit levels. Despite the many dramatic differences among states in the administration of the AFDC program, eligibil-

ity for food stamps has remained a constant across state lines. For many very low-income families with children, the food stamp program is the only assistance available. If the program were made into a block grant, many states would be likely to limit eligibility to the pattern they allow for AFDC. For about 25 states, this means that two-parent families are likely to be ineligible for assistance.

The nationwide food stamp program, with its broad eligibility and national standard benefit levels, has been effective in addressing the national problem of hunger. The Physicians' Task Force on Hunger is one group that has provided long-term evidence on the trends in national efforts to contend with the problem of hunger among the poor. The Physicians' Task Force has been able to report visible progress over about a twenty year period as the Food Stamp Program grew to national proportions. Great strides have been made toward ending hunger especially among children and the elderly. But now that the food stamp program and other direct assistance to the poor are not keeping up with the economic times, hunger is reappearing. This country already knows what to do about that problem. There is an effective program in place now. There is no reason to restructure or radically modify the food stamp program at this time.

We conclude that the following is an appropriate division of government responsibility for assistance to the poor, particularly through the food stamp program;

- Assistance needed for basic survival should be provided on a nationwide basis.
- Eligibility standards should make the food stamp program available to all who meet income guidelines, regardless of family status.
- The food stamp program should be accessible nationwide on the same basis. There should be no purchase requirements in any jurisdiction, and funds for adequate outreach should help to assure that the neediest citizens are being aided.
- Minimum benefits should be uniform nationwide, according to adjusted income levels. The basic food stamp benefit allowed for a family with no other income should be sufficient to provide adequate nutrition for the family an extended basis. The Thrifty Food Plan is an inadequate base for this calculation.
- States should be able to expand eligibility, and supplement benefits and services to meet local needs.

When the Federal government provides programs sufficient to meet the survival needs of the poor, the state and local government are free to explore and implement long term solutions to poverty. Recognizing and addressing hunger does not require local expertise. But state and local governments do have special knowledge of local industry and local civic, community and religious organizations. Working on this level, the state and local government have a special opportunity to move beyond the challenge of survival and to take up the challenge of finding an end to poverty in their own area. The most useful kind of flexibility lies in partnership among the various levels of government and between government and the private sector. Each has an appropriate role; the federal government's role provides a solid base for other efforts.

APPENDIX

NOTES:

(1) Sheldon Danziger, Robert Haveman, Robert Plotnick, "Antipoverty Policy: Effects on the Poor and the Nonpoor", Institute for Research on Poverty Conference Paper, December 1984

(2) Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, "Background Material on Poverty", October 1983.

TABLES:

TABLE A
COMPOSITION OF HOUSEHOLDS
WITH INCOMES BELOW THE OFFICIAL POVERTY LINE, 1982

Household Head:	% of Poor*	Number (millions)
Over 65	43.31%	10.95
Female with children under six	7.74%	1.96
Student	4.08%	1.03
Disabled	10.01%	2.53
Persons working full-time, full year	8.51%	2.15
Single persons working less than full-time, full year	10.52%	2.67
Male family head, working less than full-time, full year	10.31%	2.61
Female family head, no children under six, working less than full-time full year	5.54%	1.40
TOTAL	100 % of poor	25.3 million households

*These percentages are based on the situation of households before they receive any public assistance. This figure is called "pre-transfer" poverty.

From: Danziger, Haveman and Plotnick, "Antipoverty Policy: Effects on the Poor and the Nonpoor", Institute for Research on Policy Conference Paper, December 1984.

TABLE B
(Source: See note 2)

EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN -- AFTER 4 MONTHS ON JOB
(September 1983, Pennsylvania)

Earnings	EITC	AFDC [1]	Food stamps [2]	Net cash	Taxes: Social security	Taxes: Federal income [3]	Taxes: State income	Work expenses [4]	Disposable income [5]
0	0	$4,200	$1,448	Yes	0	0	0	0	[6]5,648
$2,000	$200	3,640	1,465	Yes	$134	0	0	$940	[6]5,531
$4,000	400	1,680	1,480	Yes	268	0	0	1,880	[6]5,424
$5,000	500	1,050	1,490	TNC	335	0	$11	2,350	5,344
$6,000	500	0	1,696	No	402	$77	152	2,820	4,825
$7,000	375	0	1,344	No	469	187	254	2,820	5,085
$8,000	250	0	1,128	No	536	306	176	2,820	4,537
$9,000	125	0	$13	No	603	459	198	2,820	5,978
$10,000	0	0	698	No	670	576	220	2,820	6,405
$11,000	0	0	0	No	1,005	1,430	330	2,820	9,415
$20,000	0	0	0	No	1,340	2,420	440	2,820	12,980
$32,000	0	0	0	No	2,010	5,012	660	2,820	18,498
$50,000	0	0	0	No	2,362	12,270	1,100	2,820	31,428

[1] Assumes standard deductions (standard plus cost of care for one child, $540 at earnings of $2,000 or $40 at $4,000; $2,350 at $5,000; and $2,820 maximum under AFDC law at $6,000 and above.
[2] Assumes itemized deductions (exceeding standard by deductions cost of care). $1,000 at zero earnings; $1,668 $1,000; $1,398 at $4,000; $1,568 (maximum) at $5,000 and above.
[3] Head of household rates in effect for 1983.
[4] Assumed to equal deductions (excluding cost of care for one child) presumed in AFDC (see footnote 1).
[5] Cash income after taxes and expenses, plus food stamps.
[6] Plus medicaid (which in fiscal year 1978 cost about $1,200 for a 3-person AFDC family, national average).
Assumes medicaid eligibility ends when gross income (including EITC) equals $4,700. To regain eligibility family must spend down all medical expenses to State's medically needy income limit.
Source: Congressional Research Service

TABLE C
(Derived from Table B above)

EARNINGS AND DISPOSABLE INCOME OF A MOTHER WITH TWO CHILDREN -- AFTER 4 MONTHS ON JOB -- WITHOUT ASSISTANCE OF AFDC, FOOD STAMPS OR MEDICAID

Earnings	EITC	Payroll Taxes	Work Expenses	Disposable Income
$2000	$200	$134	$940	$1126
$4000	$400	$268	$1880	$2252
$5000	$500	$346	$2350	$2804
$6000	$500	$611	$2820	$3069
$7000	$375	$810	$2820	$3745
$8000	$250	$1021	$2820	$4409
$9000	$125	$1240	$2820	$5065
$10000	$0	$1469	$2820	$5711

A Call to End Poverty in the United States

"Let justice flow like a stream and righteousness like a river that never goes dry." (Amos 5:24)

More than thirty-five million people in this country live in poverty. They include single mothers and their children, people who lost their jobs during the recession, wage-earners on low-wage jobs, youth who have been unable to enter the job market, the disabled, the elderly and others unable to participate in the economy. They lack sufficient income and resources to provide adequate food, shelter and health care for themselves and their families.

Without a concerned national effort, the next generation will be caught in the same trap. Already, one in four children under age six lives in a poor household; one-half of all black children live in poverty. Their future begins now.

Out of our faith grows the conviction that no one--child or adult--should suffer the debilitation of poverty. We must seek justice; we must protect the vulnerable. Poverty in this country can and must end: We call on members of Congress to commit themselves to this challenge.

We suggest that there are at least five ways to begin reducing poverty. In each of these five areas, specific solutions can be fashioned to respond to the needs of the poor in the 1980's while taking into account the huge federal deficit and changing industrial and family patterns.

Create Jobs in the Public Sector: Create jobs for teenage and re-entry job seekers, and the long-term unemployed, in carefully designed programs linked to economic growth efforts. Since each percentage point of unemployment costs the federal government $25 to $30 billion dollars, this would be an excellent investment in deficit reduction.

Develop Jobs in the Private Sector: Develop economic growth strategies that reach communities not affected by the recent economic recovery. These strategies could include technical and financial assistance to small minority-owned businesses (especially to new businesses), and development assistance to depressed urban and rural communities.

Remove Barriers to Employment: Create and enhance support programs which enable employable people to join or return to the labor market. These include job training programs linked closely to growth industries, child care development and subsidies, and job placement services. Support and enforce civil rights laws to assure fair access to available jobs.

Strengthen Income Assistance: Preserve and strengthen income transfer and in-kind assistance programs (such as food, housing energy and health care assistance) to meet the needs of those unable to earn an income, and to supplement the earnings of those whose wages are inadequate to care for their families. Support cooperative community-based self-help efforts to meet basic human needs.

Reform the Tax Code: Adjust the tax code to eliminate the income tax burden borne by the poor.

Anti-poverty programs comprise less than 10 percent of the federal budget. Even so, they have borne nearly one-third of all budget cuts adopted in the last four years. Federal spending for anti-poverty programs has always been modest, especially in relation to spending for some other federal objectives. Funding for programs for the poor has neither caused the deficit nor threatened the stability of the economy. By making thoughtful investments of federal funds, Congress can finance the programs necessary to end poverty in this country without exacerbating the deficit problem.

The Catholic Bishops' draft pastoral letter and other denominational statements have laid out the challenge: poverty in this country is intolerable and must end. We urge Congress to search for just, effective and realistic solutions. We intend to work toward the eradication of poverty in this country and will support your active participation in this crucial task.

STATEMENT OF HON. JAIME B. FUSTER
RESIDENT COMMISSIONER OF PUERTO RICO

Mr. Chairman, distinguished members of the Senate Subcommittee on Nutrition, I am presenting testimony for the record on behalf of the people of Puerto Rico on an issue of the greatest importance to the 3.5 million U.S. citizens of our Island, which I represent as the elected Resident Commissioner and member of the United States House of Representatives.

To begin with, some history may be in order. The Food Stamp Program was first introduced in Puerto Rico in July 1974, a decade later than its full scale implementation in the fifty states. The needy people of Puerto Rico, who are U.S. citizens, could not benefit from this valuable program during the ten year period from 1964 to 1974, although the comparatively lower incomes of our people demonstrated a greater need for such a program there than on the mainland.

Puerto Rico enjoyed the full benefits of the Food Stamp Program for a very brief period and this had a salutary effect on the Island's economy and the welfare of its people. Food stamps were introduced in Puerto Rico during the recession that followed the Arab oil embargo. Puerto Rico had previously maintained fairly high rates of growth of gross product and per capita available personal income, but both growth rates were negative in 1975 and they grew at an average rate of a little over two percent for the rest of the decade. From 1980 to 1983, both of these key economic indicators were negative. Meanwhile the unemployment rate climbed from 10.1 percent in 1970 and peaked at 23.5 percent in 1983 declining to 20.7 percent for 1984. Thus the program was implemented during a period of protracted economic crisis in Puerto Rico.

During this period of high unemployment and sluggish growth, the Food Stamp Program alleviated the suffering of the very poor people of our island. Approximately half of the families participating in the program in 1984 had an income of $2,000 or less,

and the poorest families received approximately half of the total benefits. Nutrition studies carried out by the Puerto Rico Department of Health, the University of Puerto Rico and Cornell University point to improved nutritional standards for the poor in Puerto Rico. Since the introduction of the Food Stamp Program, there has been an increase in overall caloric intake as well as in the consumption of most items comprised in the basic four food groups. The Puerto Rican diet has become more varied and consumption of relatively expensive high protein foods such as meat, milk and eggs has increased.

The differences between consumption patterns of rich and poor families have been narrowed.

In addition to improving nutritional standards, the Food Stamp Program nas had a positive impact on other aspects of family life. A Department of Social Services report concluded that the program contributed to a relaxation of tension among family members and to promoting a healthier atmosphere. The program has also been a boon for young people from poor families who desire to continue their education. In the absence of the Food Assistance program, these young people would have had to go to work to help their families without obtaining the education and skills necessary to acquire a foothold and progress in the workplace ladder. In Puerto Rico, the great majority of the unemployed are unskilled laborers but there are still shortages of many types of skilled personnel. Thus, any program that aids students to finish their education should help to reduce unemployment in the long run.

In Puerto Rico the program never played a role in discouraging labor participation. On the contrary, a 1978 study conducted by the Department of Social Services showed that the rate of unemployment among participants had dropped since the initiation of the program in Puerto Rico. The study concluded that the high level of unemployment among participants is not a consequence of the program, but rather a reflection of Puerto Rico's underlying socio-economic problems such as the low educational level of the population and the lack of employment opportunities for the unskilled. Another study concluded that the program was instrumental in directly or indirectly creating 45,000 jobs in Puerto Rico.

On July 1, 1982, the Omnibus Budget Reconciliation Act of 1981, substituted the Food Stamp Program with a block grant with an annual ceiling of $825 million.

The block grant was designed to give Puerto Rico flexibility to operate a nutrition assistance program that would be best suited for the Commonwealth's needs.

However, the $825 million assigned to Puerto Rico represented a significant reduction of the $1.1 billion which Puerto Rico would have received in funding that year in food stamps.

Administrative remedies were taken: First, the program's eligibility levels were reduced from a gross annual income of $11,000 to $8,000 for a family of four.

Second, faced with this severe cutback and the new administrative responsibilities the block grant entailed, Puerto Rico esta-

blished a direct benefit system whereby program beneficiaries receive a monthly check.

Nevertheless, in September of 1982, (Public Law 97-253) ordered Puerto Rico to change to a non-cash issuance system, despite the fact that the program had only been in operation for two months and in contravention of the block grant concept of flexibility. This non-cash requirement was subsequently eliminated until September 30, 1985, by Public Law 98-204. The law also called for a United States Department of Agriculture evaluation of the Nutrition Assistance Program and its effect on household food expenditures and the nutritional aspects of the participants' diet. Two reports have been issued as a result and both support our claim for the continuation of the Cash Assistance Program.

The bills under consideration in this Subcommittee mainly concern the benefit aspects of the program. Senate bill 1142 and the Administration's proposal embodied in S. 969 go even further by also removing the single agency requirement in the distribtion of the benefits and removing the requirement for Puerto Rico to pay a share of the administrative costs for the program's implementation. All bills are silent on the special programs which have been a part of the legislation in the past.

(Public Law 97-35 permits the Commonwealth of Puerto Rico to "employ a small proportion of the block grant funds to finance projects that the Government of the Commonwealth believes likely to improve or stimulate agriculture, food production, and food distribution, which will increase the self-sufficiency and nutritional standard of needy citizens residing in the Commonwealth." Under the reauthorization in the House side, Puerto Rico would have flexibility regarding the special projects. The special projects amounted to approximately $25 million annually. We are aware of the concerns regarding the amount of money devoted to these projects as well as their viability. As a result of these concerns and through discussions with the United States Department of Agriculture, Puerto Rico decided to reduce the amount allocated for fiscal year 1986 for special projects to $7.3 million. This decision will benefit the Nutritional Assistance Program participants because it will increase the amount available for distribution by $18.6 million a year. This is consistent with the Government's commitment to target maximum benefits to the truly needy citizens of Puerto Rico.)

We support these amendments. Especially, we support the maintenance of the cash issuance system. The following considerations justify positive action in the Senate for the retention of the Cash Assistance Program.

1. Retention of the Present Cash Assistance System

Puerto Rico accepted the ceiling imposed in 1982 which capped the program at $825 million in lieu of the flexibility that the cash assistance block grant provides. As we have stated, under the national Food Stamp Program, Puerto Rico would have been eligible to receive $1.1 billion.

The cash program has gained very broad support in Puerto Rico. It is prefered by beneficiaries, food retailers and food distributors. The U.S. Department of Agriculture supports the continuation of the program recognizing how well it has func-

tioned and its suitability to circumstances in Puerto Rico. Both major parties on the Island strongly back the continuation of the cash system.

We believe that program continuity is crucial and that changing to a different system could disrupt benefit delivery and result in incresed administrative costs, thereby limiting fund availability.

The cash assistance program is much more efficient than the non-cash system. Administratively simpler and cheaper to run, it produced savings of $9.6 million in 1983.

The overall operation of the program in Puerto Rico resulted in significant administrative cost savings going from a peak of $58.1 million in 1981 to a lower figure of $44.9 million in 1984, a reduction of almost 23 percent. Moreover, the savings in administrative costs to the federal government due to the introduction of the Cash Assistance Nutitional Program in Puerto Rico are also significant, estimated to be around $3 million, $2 million from the elimination of food stamp printing and shipping costs and $1 million due to the elimination of the retail authorization and compliance monitoring system.

The cash program has also sharpened the focus on the really needy by retargeting benefits and restricting eligibility to households with the lowest income.

Through tighter regulatory measures, including stricter certification procedures, home visits increasing legal procedures and other control measures; the caseload was reduced from 493,000 households in 1983 to 413,000 households in 1984, a reduction slightly over 16 percent. In 1982, the total number of households receiving assistance had been 506,000.

The second phase of the United States Department of Agriculture's report Evaluation of the Nutrition Assistance Program, published on June 1, 1985, indicates that there has been no change in the food basket composition during the tenure of the Nutrition Assistance Program in Puerto Rico. This comprehensive evaluation of the cash assistance program concluded, from a representative sample survey of NAP recipients and an analysis of cancelled checks, that the majority of program beneficiaries cash their checks at food stores, shop increasingly in supermarkets and buy about the same amount and types of food as they did during the Food Stamp Program. These findings suggest that predictions of the widespread abuse of checks are unfounded.

In fact, none of the expected limitations of the system have materialized.

The final United States Department of Agriculture's study has shown definitively that the Nutrition Assistance Program has not had a disruptive effect on food consumption and that the nutritional adequacy of the diet in Puerto Rico is constant. Negligible statistical differences cannot be ascribed to the Nutrition Assistance Program, which enjoys the full support of the Department.

It is also important to point out that the checks fully protect the dignity of the recipients since participants no longer must publicly reveal their indigent condition whenever they purchase food. As a result, the Social Services Department personnel can

also devote more time to eligibility verification procedures and people no longer have to take time off from work to line up for their benefits. Finally, groups with special needs such as the elderly and the disabled find it easier to participate in the program.

2. Indexing for Inflation

We are concerned that the positive effect of a more efficiently implemented nutritional program does not ameliorate the impact of the limited funds allocated to the Island.

The United States Department of Agriculture's study disclosed that since 1982, average benefit levels were cut for all groups whose gross income exceeded 25 percent of the poverty line and that these cuts have grown larger since 1982, due to the lack of an inflation adjustment in the overall block grant level. These reductions in food benefits have affected one of the poorest populations anywhere in the United States, the 62 percent of the Puerto Rican population which falls below the poverty line according to the 1980 census. This is five times the proportion of the U.S. population that was poor on that same year. (The average income of a 4-member household living in Puerto Rico is $7,412 contrasted to an annual income of $10,650 for a similar family living in the United States mainland.)

We would hope that the Senate legislative proposal can include a provision to index the program for inflation, as provided in H.R. 2422, the bill approved by the House Subcommittee on Domestic Marketing, Consumer Relations and Nutrition of the U.S. House of Representatives' Agriculture Committee on June 13, 1985.

The modest increase approved in the House is fully justified by demonstrated increases in food costs, which are higher in Puerto Rico by half a percentage point annually than the national average. Over the past four years the accumulated increase in food costs has substantially diminished the acquisition value of the assistance that needy households are receiving.

In recent years the gap between what people in Puerto Rico get and what they would have received were the program implemented in Puerto Rico if they had been treated on parity with the mainland, has widened significantly since the Food Stamp Program has continued to be indexed for inflation. Currently, citizens in Puerto Rico receive nearly 40 percent less than what citizens of comparable need receive in other jurisdictions of the United States. Indexing of the block grant funds for Puerto Rico would prevent the existing gap from further disproportionate widening.

Let me also stress that the actual benefits provided by the Cash Nutrition Assistance Program are grossly inadequate to meet the nutrition needs of needy Puerto Rican households. The actual maximum monthly benefit for a family of four is only $199, as compared to $264 for the United States, and this figure is likely to decrease as the number of people in Puerto Rico who benefit from the fixed amount of funds is expected to increase.

The amount of money available to Puerto Rican needy households is also significantly lower than the amount available to the average U.S. family since Puerto Ricans are not eligible for or receive significantly lower amounts under other Federal programs such as SSI, AFDC and Medicaid.

CBO estimates that in fiscal year 1985, the block grant funding level represents a 25 percent cut below the level of benefits that would have been provided had the food stamp program not been replaced with the block grant.

CBO figures also show that if the block grant remains frozen, it will provide for 16 percent less in food purchases in fiscal year 1987 than it did when the block grant was implemented in fiscal year 1982, and for 26 percent less by fiscal year 1989.

If the block grant funding level remains frozen indefinitely, the overall benefit reduction will reach 30 percent by fiscal year 1990, nearly two of every five food assistance dollars will have effectively disappeared.

Even when compared to the original block grant of fiscal year 1982, the Nutrition Cash Assistance Program today provides less food purchasing power. When the block grant was initially established in fiscal year 1982, the contention was that $825 million was the proper level at which to fund the block grant in order to meet the nutritional needs of low income Puerto Rican families. Surely it cannot be argued that the situation which obtains is the same a full three years later.

Conclusion

In conclusion, we fully support the continuation of the present Cash Nutritional Assistance Program and inflation indexing for the block grant. Although in terms of funding levels we would prefer to go back to equal treatment under the national Food Stamp Program, we realize this would be an unrealistic proposal given the size of the projected federal deficit. However, we must not let concerns over deficits blind us to the original intent of the Nutrition Assistance Program, which is to provide an adequate diet for the needy people of the Commonwealth of Puerto Rico. If the program is not adjusted for inflation, we will have to further reduce the number of participants and the amount of benefits, which even now are much lower than what they would be if U.S. citizens in Puerto Rico were treated on a parity with United States citizens on the mainland. We believe that the health of the Nutrition Assistance Program participants as well as their ability to function as productive members of society by far outweigh any other considerations.

I trust that the Senate will support the continuation of the Cash Nutritional Assistance Program for Puerto Rico and index the program for inflation. Currently, 400,000 needy households in Puerto Rico depend on it for their proper nutritional sustenance.

The unique position of the Commonwealth of Puerto Rico calls for measures that allow the Island's Government to run the program flexibility, permitting it to stretch the limited funding available to meet the nutritional needs of a large segment of the population, while maintaining the priceless sense of dignity for all individuals, whether receiving assistance or not, that all citizens aspire to.

State of New Jersey
Office of the Governor

June 19, 1985

The Honorable Robert Dole
Chairman
Committee on Agriculture, Nutrition
and Forestry
Subcommittee on Nutrition
U.S. Senate
Washington, D.C. 20510

Dear Bob:

I deeply regret that I was unable to attend the Subcommittee's hearing on the Food Stamp Program. There is no program more integral to maintaining the minimum standard of living for children, the elderly and the unemployed. I want to express my appreciation for your personal interest in this issue.

Enclosed please find a statement on behalf of the National Governors' Association which I hope can be included in the Committee's hearing record.

Kindest regards,

Sincerely,

Thomas H. Kean, Governor

Enclosure

STATEMENT OF HON. THOMAS H. KEAN
GOVERNOR OF NEW JERSEY
ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman and members of the Subcommittee, I am pleased to have the opportunity to submit a written statement for the hearing record on behalf of the National Governors' Association (NGA). The comments below briefly summarize NGA's position on the federal budget and the state's fiscal condition, and in more detail, NGA's policy concerning the Food Stamp Program.

The Federal Deficit and the Fiscal Condition of the States. The Senate and the Governors are in agreement that the continuation of the current level of federal budget deficits is unacceptable. The nation's Governors adopted a bipartisan comprehensive position on the federal budget in February. It recognizes that the strength of the national economy requires a substantial reduction in the projected level of the federal budget deficit. It also recognizes that the reduction in that deficit will take much sacrifice and that states are prepared to see the growth of federal aid to them reduced. However, it also recognizes that continued federal support for needs-tested programs which provide the safety net for poor Americans is essential. Specifically, the NGA budget policy calls for the means-tested entitlements including food stamps to receive full funding.

Although the fiscal condition of states in 1985 will be somewhat stronger than that experienced in the recent past, the surpluses currently projected are quite modest given the economic and other uncertainties facing state governments. A recent survey undertaken by NGA and the National Association of State Budget Officers indicates that the states' ending balance for fiscal year 1985 will be approximately $5.2 billion, or only 2.9 percent of spending during that year. Wall Street analysts prefer a 5 percent ending balance to maintain the high bond ratings that are so critical to the financial integrity of state government.

Equally important, not all states share equally in these surpluses. About 50 percent of the entire surplus is in only five states, with 28 states having balances below 3.0 percent. These balances are small considering that the economy could slow; and that states have deferred considerable infrastructure, education and environmental spending during the 1981-83 recession. The sensitivity of state estimates to economic change is illustrated by the fact that virtually all states overestimated their fiscal year 1983 revenues, with 24 states overestimating by 5 percent or more. (The Office of Management and Budget misestimated federal revenues in the same period by 8.9 percent.)

While the Governors are willing to see the rate of increase in state aid reduced, they are opposed to large shifts in current federal responsibilities to the states. As a result, we strongly support the reauthorization of the Food Stamp program and oppose efforts to reduce the federal role in its financing.

Hunger and Poverty. There were over 35 million Americans in poverty in 1983 according to the Bureau of the Census. A little over one-third of these were children. The poverty rates for female headed households and blacks as separate groups have not dropped below 32 and 30 percent respectively since data was first collected 25 years ago. While not every individual and family living in poverty is hungry, poverty is certainly an indicator that hunger may exist among such persons.

We believe it is not coincidental that as the national poverty rate has increased each year from 1979 to 1983, hunger has also increased. A number of studies substantiating these trends have been done by local governments or local organizations. Other studies were done by the U.S. Conference of Mayors (June and October, 1983 and September 1984), the U.S. General Accounting Office (June 1983) and numerous national organizations concerned with hunger.

The latest study was done in 1984 by the Physician Task Force on Hunger in America with grants from the Harvrd School of Public Health and 12 philanthropic organizations. The Task Force was comprised of 22 physicians and 35 other physicians participated in local field investigations. While the study was not a statistical survey of the nation nor a detailed study of all states, the combination of field investigations in government agencies, churches, family homes, and emergency feeding centers, plus data from federal, state and local epidemiological and other statistical studies, resulted in an enormous body of information on hunger in America.

The overwhelming conclusion of this study is that hunger is widespread and increased even during the economic recovery of 1984. The physician's report notes that possibly millions of Americans go hungry at least for some period each month. Without exception, emergency food programs across the nation report significant increases in the number of hungry people. While we are not sure this latter study accurately counts the number of hungry Americans, we believe it is another credible study showing that the hunger problem is real.

We are also concerned by the reduced buying power of combined AFDC-Food Stamp benefits which have decreased significantly since 1971. For example, the House Ways and Means Committee in its February 1985 Committee print reports that the average four-person family receiving AFDC and food stamps has seen a 22 percent reduction in the real value of those benefits between 1971 and 1983.

The NGA Income Security and Food Stamp Program Policies. The National Governors' Association believes that food assistance programs which attack the problems of hunger and malnutrition in America are key elements of a national income security policy.

Less than three years ago, NGA reaffirmed its commitment to the development of a national income security policy. That policy position states:

- o The federal government should accept the primary responsibility for financing income security programs;
- o Further cuts in the level of federal support for these programs is unacceptable;
- o The national program must be comprehensive and must address the total range of income security needs in the states, the Commonwealths of Puerto Rico and the Northern Marianas and the Territories through cash assistance and other in-kind benefits as well as medical care;
- o The comprehensive national program should provide, among other policies, for a minimum income level related to the cost of meeting some national measure of the basic need for food, shelter, transportation, clothing and health care.

NGA's advocacy of a national income security policy is a major component of the NGA's federalism proposals and is consistent with our general policy on the federal budget. The Governors have long supported the concepts of sorting out the appropriate roles of the state and federal governments within the federal system. The lack of a national income security policy is imposing severe handicaps on those states and localities that have a large concentration of poor people or are experiencing continuous economic problems.

This problem is particularly frustrating since states are unable to control the major factors that influence employment or the health of the economy. One onerous result of these differences among the states is the artificial incentives provided for migration.

The federal food assistance programs are an important tool to help equalize the inequities in the distribution of resources and problems among the states. The Food Stamp program is particularly important as it is the only federal program open to the

majority of poor persons and one of the few programs that includes national eligibility and benefit standards.

The bottom line for the Governors is that an income security policy, of which food stamps are an important part, is a vital national concern.

The Food Stamp Policy. First, and foremost, the National Governors' Association strongly supports the reauthorization of the Food Stamp Act. While we continue to affirm our support for the development of a national income security policy, and, over time, a larger federal role in financing that policy, it is critical that we retain and improve existing income assistance programs, in this case, the food stamp program, until such a national policy has been adopted and implemented.

Second, while Governors want more flexibility to administer the food stamp program we believe that the needed flexibility must be in the context of an individual entitlement program and that it would be inappropriate to transform this program into a block grant to states. A block grant could lead to effective capping of federal expenditures for the program and thus not allow for increases in funding as the number of households in need of food assistance increases. A block grant could also move us away from the current program's comprehensive national measure of need and reasonably uniform national benefit floor.

Federal food assistance programs, particularly the Food Stamp program, are designed to meet the minimum nutritional needs of every eligible person. Reducing food assistance benefits through limits on total expenditures would inequitably cut benefits across states and localities, and thereby reduce the ability of federal programs to meet the minimum nutritional needs of every eligible individual. In short, eligibility rules and thus nutritional standards should be national.

While some attempts to draft optional block grant legislation address the issue of indexing federal funding to individual state conditions, we are unaware of a method that would approach the flexibility in the entitlement aspect of current programs. Currently, federal funding changes as caseloads change, which is a direct reaction to economic conditions in the states. Indicators of state conditions like changes in food costs are indirect measures and therefore not as flexible.

Food Stamp Error Rate Sactions. NGA believes error rate sanctions that could reach $300 to $500 million over the 1983-1989 period are a prime example of cost shifting and, therefore, is strongly opposed to any increases in the sanction provisions which were enacted by the Congress in 1982. Those provisions established a system of graduated targets and penalties which are designed to encourage states to take strong corrective action. States have reduced their error rate from 16 percent in 1974 to 8.36 percent in 1983 and are continuing to make progress in 1984 and 1985. In fact, we believe that the easing of these sanctions and fundamental changes in the quality control system are now timely.

First, as we have testified in the past, we are strongly opposed to the concept of sanctions within a cooperative federal-state program. States have demonstrated their firm commitment to

the reduction of errors. Penalties are not needed and increased penalties will only serve to shift unavoidable costs from the federal government to the states.

They are unavoidable because the very nature of the eligible population contributes to rapid changes in the caseload. Complex, and sometimes unnecessary, federal rules only increase the opportunity for error. Since states do not have the ability to assume any additional costs, the large error rate sanctions will inevitably result in a reduction of services to those who are in need.

Second, the current quality control system has a number of serious flaws. The Governors recently approved a policy concerning quality control error rate sanctions. At a minimum, the Governors urge Congress, in the food stamp program and in the AFDC and Medicaid programs to:

- o Establish error rate tolerance levels based on demonstrated state achievement;
- o Modify state by state tolerance levels to reflect demographic and program characteristics which may affect performance;
- o Eliminate "technical errors", i.e., those errors which do not affect the final payment, from the calculation of error rates used for fiscal sanctions; and
- o Set error rates at the lower bound of the range of the statistical estimate.

In addition, Congress should consider enacting the following reforms:

- o Modify treatment of client caused errors to reflect the limited ability of the states to reduce and control such errors;
- o Improve the timeliness of the federal re-review and the issuance of final error rates;
- o Consider the cost-effectiveness of further error rate reduction efforts before requiring further state action;
- o Improve the consistency of the error rate review process among the federal regions; and
- o Modify the process for waiving fiscal sanctions to provide states with a fair system of seeking "good faith" waivers.

Further, the Governors recommend that the imposition of sanctions under the current system be waived until such time as the Congress has completed action on the necessary reforms. Failure to take such action will only increase the uncertainty under which states must budget for these programs and may result in unnecessary reductions in vitally needed services.

We believe the above reforms will make the quality control systems for Food Stamps, AFDC and Medicaid more fair and manageable as well as more accurate in the measurement of state performance.

Program Simplifications to Reduce Errors. The Governors believe that the present Food Stamp program is unnecessarily complex and support federal action to simplify the program and to improve the quality of administration. Our recommendations include:

- o Allow states to conform employment-related services and work requirements for the food stamp population to the requirements of cash assisltance programs providing assistance to the same individuals (e.g., AFDC);

- o Allow states to use AFDC and SSI income definitions in the calculation of food stamp bonus levels;
- o Cash-out benefits for SSI recipients;
- o Disregard the same $50 of child support for food stamps which is disregarded for purpoes of AFDC;
- o Allow USDA to require only cost-effective state operational procedures, i.e., if not cost-effective in individual states, there should be no federal mandates to do bank or wage matches, open offices on weekends or evenings, stagger issuances throughout the month, require countersignature for receipt of benefits or provide photo IDs;
- o Provide greater stability for administration of this program by limiting mandatory changes and by providing sufficient time for proper implementation;
- o Continue to provide benefits without a purchase requirement; and
- o Allow Puerto Rico to continue its block grant with maximum flexibility in the design of the program.

We also support efforts to make monthly reporting and retrosepctive budgeting optional. Changes enacted in the AFDC program last year would provide a useful model for the desired modifications in current law.

Program Stability and Improvements. The Governors are also concerned that the current value of benefits to food stamp houeholds not be reduced and that they continue to be adjusted as necessary to reflect the increased costs of food and other basic living costs. Thus, we support: 1) the current calculation method for the thrifty food plan; 2) indexation of certain disregards and disregard caps; and 3) disregards of energy assistance benefits. As resources permit, we also support indexing to inflation the current asset limits and all disregards not currently indexed; providing food stamps to children even if they also participate in child nutrition programs; basing the value of benefits for each fiscal year on projections of food costs for October of that year rather than June of the previous year; separating and increasing the dependent care and excess shelter disregards so the dependent care disregard is the same as in the AFDC program; and, restoring the earned income disregard to 20 percent to continue the incentive to increase work and earnings.

While we are committed to maintaining benefits for all households, we are equally committed to increasing the emphasis of the program on finding jobs for Food Stamp recipients who are able to work. More adequate federal funding for work registration and job search activities would enhance our ability to do this.

Budget Reduction Proposals. As we noted before, the Governors support full funding of the food stamp program. The Congressional Budget Office estimates that 1981 and 1982 legislation will hold food stamp spending to $7 billion or 13 percent lower for fiscal years 1981-1985, than it would have been under pre-1981 law. CBO also estimates that 1 million persons lost eligibility over the same period. We believe that the sacrifices of food stamp beneficiaries plus the increasing problems of poverty and hunger argue strongly for no further cuts.

NGA policy opposes the proposals for capping food stamp administrative costs, mandating state workfare programs or large increases in work program participation without adequate administrative matching, mandatory job search programs, and other proposals which seek to reduce spending without regard to human need or administative practicality.

- o A Cap on Administrative Costs: First, a cap on administrative costs is unnecessary to restrain spending. Since states must provide 50 percent of those costs from their own revenue, they have all the incentive they need to restrain unnecessary spending. Second, in order to continue error rate reductions, states must continue to spend on corrective actions including automation. Any cap will certainly retard corrective action. Finally, a cap makes no sense when coupled with required increases in work program administrative costs.
- o Mandatory Workfare or Job Search: While the National Governors' Association supports the efforts of Congress and the Administration to promote the labor force participation of welfare and food stamp recipients, we continue to have strong objections to federally mandated workfare or job search. Current law provides the states with the necessary flexibility to test the best approaches to putting AFDC recipients to work and we will continue to work with the Congress and the appropriate Executive Branch agencies to improve the administration and financing of current legislative provisions concerning this issue.

  Almost all of the states are trying new work program strategies with their AFDC caseload and many with their general assistance caseload. The WIN Demonstrations, Grant Diversion projects, special workfare and other demonstrations being initiated by lthe Health and Human Services Department will affect, and probably reduce somewhat, Food Stamp expenditures by increasing recipients work effort and earnings.

  It is not yet certain whether workfare job search, grant diversion, training, or some combination works best for any particular sub-group of the welfare population. To mandate any particular approach or to mandate any participation by a substantial portion of the population is extremely premature. Flexibility must continue until we know what work programs work best for which recipients and the costs of administration associated with fostering successful ventures into the workplace.
- o Other Spending Reduction Proposals. NGA policy opposes the following policy proposals: (1) freezing the thrifty food plan; (2) freezing or reducing the shelter/dependent care or standard deductions; (3) counting child nutrition programs as income; (4) eliminating the $10 minimum benefit; (5) counting as income payments to third parties in the AFDC and State General Assistance programs; (6) counting a income the earnings or other income of household members from the Job Training Partnership Act; and (7) prohibiting the ability of households to count federal Low Income Home Energy Assistance payments as a shelter expense. In addition, NGA policy opposes further eligibility restrictions such as: (1) changes in the liquid assests rules for farms; (2) reinstating the purchase

requirement; or (3) freezing or reducing the gross income eligibility limit.

Special Food Programs. Finally, the Administration is proposing to eliminate the emergency food and shelter program run by a consortium of national charities as well as the program to reimburse states for the cost of storing commodities, e.g., cheese, which are provided for the poor and homeless. The NGA supports the continuation of a federal role in the financing of emergency food and shelter programs until such a time as the more fundamental causes of homelessness and emergency hunger needs of families can be identified and alleviated.

Conclusion. The National Governors' Association strongly supports continued efforts to improve the administration and cost effectiveness of the food stamp program. We believe that there is a need for a continuing role for the federal government to improve the national income security program and we are most anxious to work with Congress and the Administration on these critical problems.

STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. Chairman and members of the Subcommittee, the American Association of Retired Persons (AARP) appreciates the opportunity to express its views regarding the Food Stamp program, the program's success in fulfilling its mandate with respect to older Americans, and its need for improvement.

The Association, together with a number of other national aging organizations and public interest groups, has endorsed seven specific proposals which we believe will enable the Food Stamp program to reach more eligible older persons and to serve them better than is the case under current law. These proposals would:

1. Strengthen the medical expense deduction by
   - o Changing the threshold for the medical expense deduction from $35 to 5 percent of gross income;
   - o Permitting special, physician-prescribed diets to be an allowable medical expense for elderly and disabled persons; and
   - o Providing a statutory basis for currently allowable medical expenses.
2. Make burial funds a separate, allowable resource up to $1,500.
3. Make SSI recipients categorically eligible for the food stamp program.
4. Raise the liquid asset limits from $1,500 to $2,200 for non-elderly households and from $3,000 to $3,500 for elderly households.
5. Strengthen information notification procedures and outreach to potential older food stamp recipients by
   - o Requiring the Social Security Administration (SSA) to assist all SSI and Social Security participants with food stamp program information and with streamlined food stamp applications in SSA offices; and

- o Mandating state outreach to elderly and disabled, potentially eligible food stamp recipients.

6. Facilitate the use of food stamps by elderly and disabled persons to purchase low-priced meals in restaurants.
7. Adjust household definition so as not to penalize frail elderly food stamp recipients assisted by caretakers.

I will explain these proposals in some detail later in my remarks, but would first like to provide some context for the Association's concern and recommendations.

The importance of good nutrition to the health of older persons cannot be overstated. Balanced, nutritional diets can help older persons avoid chronic ailments and high medical expenses; conversely, poor nutrition is associated with vulnerability to illness and can lead to hospitalization, premature institutionalization or death.

Obtaining a balanced diet is extremely difficult for anyone subsisting close to the margin, and especially for those advanced in age. It has become fashionable to think that older Americans have overcome their traditional income disadvantage, having achieved a poverty rate slightly lower than that of the general poplulation. In fact, the vast majority of older persons remain fixed in the lower reaches of the income distribution, with more than one in five--or almost 6 million persons--having income in the poor or near poor category. The median elderly household income currently stands at about half that of the non-elderly household. Unfortunately the economic disadvantage persists, despite Social Security cola's and other inflation protection measures.

In addition, actions taken in previous budgets have already significantly reduced benefits in programs serving older Americans. Such benefit reductions have been compounded by the fact that elderly out-of-pocket health care payments have increased tremendously. In the end, statistics indicate that older persons are currently critically dependent upon programs like Social Security and Medicare for basic income support and health care protection. Substantial cutbacks in inflation protection and increases in copayments for these and other income security programs are being contemplated again even now.

The implications of past and potential cutbacks are most serious for the oldest, and for those belonging to minority groups. Women in their late seventies and eighties are less likely to have worked and acquired income of their own. Those who did work received much lower wages than those retiring now, and were in the labor force for shorter terms. Now they must get by on minimal Social Security and/or SSI benefit and often no pension benefits at all. For older minority persons, the disadvantages of aging are compounded by the effects of a lifetime of institutionalized racism. Hence, we find that older women as a group experience a 17 percent poverty rate, while a stunning 41.7 percent poverty rate prevails among older women who are black. These are the people who most clearly are in need of the assistance provided by the Food Stamp program.

AARP strongly supports the Food Stamp program. It is an unparalleled instrument of national policy to ensure a minimum

level of nutrition for low income Americans, regardless of the region in which they may reside or the level of assistance provided--or not provided--by their state or local government.

Since its inception in 1964, the Food Stamp program has enabled millions of older persons to increase their food purchasing power and, thus, improve their standard of living overall. Yet, recently, recurrent reports of growing hunger across the nation have raised doubts as to the effectiveness of the program in addressing the need that exists. Studies and surveys have been undertaken to determine the extent and causes of this problem, including appointment by the President of a Task Force on Food Assistance in 1983. Together, the results of these studies point to the need for immediate restorations of benefits lost over the past several years. Especially, they indicate the urgency of updating all components of the food stamp formula to reflect the real nutrition needs of the people the program was designed to serve, and the actual cost of meeting those needs. Above all, the findings of these studies demonstrate the compelling need for effectively implemented outreach, as significant numbers of eligible households are not being served.

No where is the evidence of this fact more serious than with respect to older persons. According to USDA-sponsored research, while two-thirds of all persons eligible for food stamps participate in the program, only half of eligible elderly households participate. Participation is especially poor among older persons living alone, and the older eligible persons become, the less likely they are to receive food stamps.

Professor Richard D. Coe, whose research in this area is particularly useful, points out that elderly unmarried women form the bulk of non-participating elderly households, accounting for over one-third of all non-participating eligible households. He also indicates that eligible non-participants tend not to be well educated, with 40 percent having less than nine years of formal education. In addition, he shows that participation rates are lower in rural areas than in metropolitan areas, and that eligible persons who are not connected to other parts of the public assistance system--such as SSI--are much less likely to receive food stamps than those who are. His conclusion is that lack of information and misinformation regarding eligibility for the food stamp program are the primary barriers to participation among all eligible groups.

Other studies and surveys tend to corroborate the need for action. The Texas Senate Interim Committee on Hunger and Nutrition reported last year that there had been 513 deaths, primarily among elderly persons, in Texas due to malnutrition between 1979 and 1982. It noted that only 41 percent of Texans eligible for food stamps had received them. Also, private sector survey respondents reported that the demand for emergency food assistance had skyrocketed, and that they were forced to turn away at least 20,000 requests for food each month due to lack of resources.

The Texas study points out that elderly persons are particularly sensitive to the problem of hunger, and that--consistent with national trends--the state's older population is growing

rapidly. Its survey of congregate and home-delivered meal recipients revealed that without such a program, 34 percent would go hungry; among recipients of home-delivered meals alone, 62 percent say they would go hungry without these meals. Yet over three times the number of older persons served by these programs are officially poor or near poor. The study concludes that the food stamp program has not kept pace with the growing need for food, and that the number of people who are legitimately in need of help and yet are refused, left out or kept off the program, exceeds the number who abuse it.

Similar conditions have been reported in New York, where a study (conducted by Montefiore Medical Center in the Bronx) released last year documented that hunger is a major problem, particularly among such vulnerable populations as the frail elderly. It noted that government assistance was inadequate for those interviewed, estimating that 52 percent of them might be eligible for food stamps but were not receiving them, while many of those who were receiving food stamps reported that the assistance was not enough for the entire month. Likewise, in Chicago and in other cities across the nation, growing hunger has been reported and concern has been expressed that, if nothing is done, irrepairable harm will come to the health of affected older persons, as well as others.

Two other studies to which I would draw your attention have particular relevance to low income older persons. The Ohio Senate Hunger Task Force of 1984 "found a significant relationship between a family member requiring a special diet and that family usually not having enough to eat. . . . . Special diets mentioned by the respondents include diets for treating diabetes, hypoglycemia, and obesity". Elderly persons are among those most often placed on special diets by physicians because they suffer from diabetes or other chronic diseases. Secondly, we understand that this Subcommittee is undertaking its own review of the Thrifty Food Plan (TFP), and that the preliminary draft suggests that planning menus within the budget constraints of the TFP to meet the needs of patients who have diabetes or who are on "low sodium" diets would be difficult. In addition, the draft points out that individuals who are functionally illiterate (as Coe's findings suggest many unserved older persons may be) would likely lack the skills to follow complex dietary prescriptions within the budgetary limits of TFP.

What we know about households who are participating in the food stamp program tends to be consistent with what we have observed about the neediest, and most vulnerable, elderly persons.

The 1982 Food and Nutrition Service characteristics study tells us the following:

* Households with elderly members, numbering some 1.5 million, accounted for almost 20 percent of the total food stamp caseload.
* About 90 percent of all elderly participants lived alone or with one other person (usually elderly as well).
* Nearly 69 percent of all elderly households were headed by women. About 56 percent were single elderly women living alone.

* The percentage of minority households participating in the program (though we do not know how many of these are also aged) is disproportionately high: black households made up 37 percent of all food stamp recipients; Hispanic households, 1.6 percent; and Indians, 1.0 percent.
* About 19 percent of participating food stamp households received income from Social Security, averaging about $273 per month. About 41 percent of these households had no other source of income; about 39 percent also received SSI. A small percentage of households received nothing but SSI.

It is evident, therefore, that the food stamp program is effectively targeted to those older persons most in need. What increasingly concerns our organization and others, however, is the limited degree to which the program reaches the many households who qualify for assistance; in addition, based on the reports cited above, we question the adequacy of the amount of assistance provided. Finally, we believe that older persons whose income or assets place them just outside the eligibility screen now in effect ought to have access to benefits.

There are many components to the problems just identified. Increased restrictions in some eligibility standards, and failure to update others in line with inflation over the years, are partly to blame. The assets limit, for instance, was set in 1971 at $3,000 for households of two or more members, including one elderly member, and $1,500 for all other households, including one-person households. It has not been raised since, despite the fact that to equal the purchasing power it represented in 1971, the limit would have to be raised to approximately $7,700 for "elderly" households and $3,850 for "non-elderly" households. The effect of letting this limit shrink, in real terms, through Congressional inaction has been to progressively reduce the number of low income persons who qualify for assistance. No wonder the President's Task Force called for substantial increases in these levels.

In 1981, Congress repealed a liberalization in the medical expense deduction for the elderly scheduled to take effect the following year. The planned improvement would have lowered from $35 to $25 the threshold above which medical expenses could be deducted from income. This provision still needs adjustment. Moreover, the cost of special restricted diets are specifically excluded for consideration as a medical expense under current law (dog food for a seeing eye or hearing dog, by contract, is included). We don't think this makes sense. Yet even tighter regulations, removing some of the deductible expenses now provided for in the statute, have recently been suggested. Our proposals would attempt to remove barriers to participation caused by these factors, among others.

With regard to the Thrifty Food Plan, the conclusion we draw from a review of available research and the experience of participants is that it is simply too lean. While nutritionists differ as to its adequacy on paper, when transferred from the realm of theory to the "real world" of high-priced, low-income neighborhood markets; costly dietary restrictions; inadequate or absent storage and cooking facilities; and ordinary consumer food

wastage, the Thrifty Food Plan does not deliver the level of assistance it promises. Add to these real world conditions administrative procedures such as adjusting food stamp allotments only once a year (which causes benefits to lag 3 to 15 months behind actual food prices), and imposing state sales taxes (which causes affected households to lose 3 to 6 percent of their food stamp allotments in some seventeen states), and the "hard cash" value of the Thrifty Food Plan declines considerably, with variations from state to state.

We do not claim to offer a comprehensive solution to these problems. We believe, however, that the modest administrative reforms and adjustments proposed below will have a significant positive impact both on the level of participation by older persons in the Food Stamp program, and on the adequacy of the benefits they receive:

1. Strengthen the Medical Expense Deduction

A. Change the threshold for the medical expense deduction from $35 to 5 percent of gross income or $35, whichever is lower.

This change would result in an average threshold of $18 above which medical expenses could be deducted. The 5 percent level accords with the standard applied to more affluent Americans when calculating their income taxes; only 5 percent of their gross income must be spent for medical expenses before the medical deduction is triggered. Expenditures above 5 percent are considered "extraordinary" -- and should be for low income older Americans as well.

B. Permit special, physician-prescribed diets to be an allowable medical expense for elderly and disabled persons.

Special diets to treat such conditions as diabetes and hypertension are often necessary for older persons, and they require larger expenditures for food than does a normal diet. It is therefore fair and reasonable to include such costs as medical expenses.

C. Provide a Statutory Basis for Currently Allowable Medical Expenses.

Regulations now define which medical expenses are allowable as deduction. The statute should be more explicit to ensure the continued deductability of dental, physical therapy and other medical expenses which are frequently used by the elderly and disabled.

2. Make Burial Funds A Separate, Allowable Resource Up To $1,500.

Current law allows SSI and Medicaid recipients to maintain a separate account designated for burial costs, and because such a fund is not allowable under the food stamp program, some SSI recipients are prevented from receiving food stamp benefits. This change would provide for greater consistency among these programs and would allow otherwise eligible persons to set aside a small amount of money for burial costs, a matter of great concern to most aged persons.

3. Make SSI Recipients Categorically Eligible for the Food Stamp Program.

This amendment would simplify application procedures, reduce administrative paperwork, and assist eligible households who do not separately pursue food stamp application after receiving SSI certification. It would also assist persons ineligible for food stamps due to high state supplementation levels. The provision was included in H.R. 5151 last year and was recommended by the President's Task Force on Food Assistance.

4. Raise the Liquid Asset Limits from $1,500 to $2,200 for Non-Elderly Households and From $3,000 to $3,500 for Elderly Households.

As noted previously, current asset limits hav not been updated since they were set in 1971. The proposed levels would partially offset inflationary increases since that time. They conform to the recommendations of the President's Task Force on Food Assistance. The new levels should be adjusted annually to account for inflation in the future.

5. Strengthen Information Notification Procedures and Outreach to Potential Older Food Stamp Recipients.

A. Require the Social Security Administration (SSA) To Assist All SSI and Social Security Participants With Food Stamp Program Information and With Streamlined Food Stamp Applications in SSA Offices.

The proposed change requires SSA to assist all participants (applicants and recipients) in both SSI and Social Security programs. It also clarifies the requirement in existing law since 1977, which SSA has not properly implemented, that it assist SSI recipients in executing a simplified food stamp application in SSA offices. Since research shows that eligible persons not connected with other parts of the public assistance system are especially unlikely to receive food stamps, it is essential that application for food stamps by Social Security recipients be facilitated as well.

B. Mandate State Outreach to Elderly and Disabled, Potentially Eligible Food Stamp Recipients.

Federal sharing of outreach costs should be provided for at a level of 50-75 percent. The need has been clearly established for aggressive outreach to older, low income persons, especially older women living alone and those in rural areas. Funds should be authorized for outreach through Congregate and Home-Delivered Meals programs, particularly to persons placed on waiting lists for such services, and to persons in areas unserved by Older Americans Act programs.

6. Facilitate the Use of Food Stamps by Elderly anbd Disabled Persons to Purchase Low-Priced Meals in Restaurants.

Current law allows persons who are 60 years of age or older to use food stamps to purchase prepared meals at restaurants, senior centers, elderly housing complexes and similar institutions which contract with the states to serve meals at concessionary prices. These restrictions put unnecessary burdens on states and private facilities and unduly restrict availability of service to food stamp recipients. The proposed change would permit people without access to other meal programs to have an

occasional hot meal at no additional expense to the government. The provision will be especially useful to single-room occupants who lack storage and cooking facilities, as well as to those whose physical limitations make shopping or cooking more difficult.

7. Adjust Household Definitions So As Not to Penalize Frail Elderly Food Stamp Recipients Assisted by Caretakers. Elderly recipients should be allowed to apply for food stamps as a separate household, regardless of income level of caretakers, when they have been certified as unable to purchase and prepare their own meals. Present law requires that, for elderly persons who are too frail to purchase and prepare their own food to apply for food stamps as a separate household, the income of other household members cannot exceed 165 percent of poverty. This provision was added to the law in 1982 to help elderly recipients who were unable to purchase and prepare their own food. Instead, it is causing people to lise food stamp eligibility. Confusion on the part of caseworkers with regard to household definition restrictions is causing elderly recipients to be wrongly disqualified or lose a portion of their benefits. For elders who can still prepare their own food, there is no restriction on income of other household members. Therefore, previously eligible persons are losing food stamp eligibility when they become frail.

The foregoing recommendations have been endorsed by the Leadership Council of Aging Organizations, a coalition of national organizations working in behalf of older Americans. We hope you and other members of the Subcommittee will consider them favorably for inclusion in the Subcommittee's bill reauthorizing the Food Stamp Act.

Two final points I would like to make concern the "quality control" issue, or state error rate sanctions, and the issue of the adjustment factors for economies of scale used by the Food Stamp Program. Briefly, the Association opposes excessive error rate sanctions against the states, which are likely to be financed by cutbacks in state funding of other low income programs, such as SSI supplements. Sanctions levied should recognize underpayments and wrongful denial of benfits as well as overpayments. Penalizing the states only for overpayment tends to create a perverse incentive to err against recipients.

With regard to the economies of scale issue, since release of the President's Private Sector Survey on Cost Control (the Grace Commission recommendations), these factors have increasingly come under scrutiny. The Grace Commission report suggests that small (one or two person) households have been provided overly generous economies of scale adjustments. It recommends that these adjustment factors be modified to reflect "how people should, instead of how they actually do, spend their food stamp money." The proposal, according to a Congressional Budget Office analysis done in January, 1985, would reduce outlays in the Food Stamp program by about $166 million in 1986.

These savings, it should be noted, would come primarily at the expense of low income elderly. Eighty-eight percent of all elderly participants either lived by themselves or with one other

person in 1982. An analysis of this recommendation by the Center for Budget and Policy Priorities indicated that, if it were implemented, one-fourth to one-third of all elderly food stamp households would be terminated from the program and virtually all the remaining elderly households would lose between $132 and $192 in stamps per year.

Although the Grace Commission report came out two years ago, debate continues as to whether such a recommendation should be implemented. We wish to call to your attention the fact that other studies have come to different, and quite opposite conclusions regarding the adjustment factors for economies of scale in the Thrifty Food Plan--in sum, they suggest that the TFP may not be generous enough. Certainly, the experience of current older participants in the food stamp program demonstrates that a reduction in benefits, whether accomplished through administrative or legislative action, would be inappropriate and harmful to their health. We urge you to reject any such proposals.

To conclude, the American Association of Retired Persons offers these comments and proposals in the spirit of strengthening a program we believe is basically working well. The Food Stamp program is very important to low income older Americans. We look forward to working with you to see that it serves all eligible persons with the greatest possible effectiveness.

STATEMENT OF THE FOOD MARKETING INSTITUTE

The Food Marketing Institute (FMI) is a non-profit association that conducts programs in research, education and public affairs on behalf of its 1500 members--food retailers and wholesalers and their customers. FMI's member companies operate more than 17,000 retail food stores with a combined annual sales volume of $140 billion--half of all gorcery sales in the United States. More than three-fourths of the FMI's membership is composed of independent supermarket operators or small regional firms.

Since most food stamp redemptions are in gorcery stores, our industry is an important link in the delivery of food assistance to America's most needy citizens. Our unique relationship with the food stamp program provides FMI's members a continuing opportunity to see the workings of the program on a daily basis in every section of the country and type of community. FMI and its members have long supported the food stamp program as the best and most effective use of taxpayers dollars in eliminating hunger in America.

We have opposed, and continue to oppose, any budgetary reductions of the food stamp program that would impose upon individual recipients a greater percentage reduction than is being imposed on the recipients of other programs. We believe strongly in the commitment, made more than a decade ago by Congress and the Administration, to wipe out hunger in America. The food stamp program is our most effective tool in fulfilling that commitment.

License Fees

S. 969 provides that retailers pay a $50/per-store/per-year license fee. Presently, H.R. 2422 and the Administration's legislative proposals in the House do not contain this outrageous provision.

While the amount of the individual store fee may not appear prohibitive, it fails to recognize the retailers' current contributions to the program and clearly establishes a dangerous revenue precedent. When USDA is hit by another budget crunch, a partial solution would be to increase the retailers' fees. Escalating fees, or a hidden tax, have become common fiscal practice.

It is well known that retailers operate on the slenderest of margins. A well run company hopes to net one cent on every dollar of sales. The overhead costs of servicing food stamp customers exceeds that for non-food stamp customers. The transaction at the check out counter takes more time, there are more steps necessary in counting, checking, bundling and stamping the coupons and in the acounting practices that follow. We accept these costs because we support the public policy that gave rise to the food stamp program. To add to those non-reimbursable costs strikes at the very concept of fairness.

Bank Fees

Over the years, FMI has worked with Congress and the Administration in exploring ways to improve the efficiency and effectiveness of the food stamp program. The grocery industry is currently facing a problem that has the potential of seriously damaging that program. Grocery stores are being assessed a charge by a growing number of banks for redeeming food stamps. The impact of new technology and the effect of bank deregulation gives banks the ability to allocate their costs for providing various services and they have chosen, in turn, to impose charges on food retailers.

Of course, retailers have long known that food stamp business imposed extra handling costs, but the law prohibits us from passing those costs on to food stamp customers.

But now the banks sense an opportunity to increase their revenues, for what has been until recently a normal cost of doing business, and to do so at the expense of retailers. In short, the retailer, and ultimately the low income food stamp recipients and other consumers, are to absorb the banks' overhead.

Why?

Two years ago, FMI conducted a survey to determine the extent and amount of bank charges.

Of the independent operators who responded, 16 percent were assessed a charge averaging 3 cents per coupon. Of the larger companies that responded 49 percent were assessed a charge averaging 2.95 cents per coupon. Charges to retail grocers ranged from a fee of 2 cents per coupon to 6 cents per coupon. If the banks charged at the high end of the current range, this could result in charges of $156 million per year. Since that time, our members tell us that the practice has become much more pervasive and expensive. In many parts of the country, all banks are charging retailers to deposit food stamps.

At the time of our survey, FMI and others met with the American Bankers Association and the Department of Agriculture in an attempt to resolve the problem of costly bank fees. Unfortunately, our meetings were most unsatisfactory because of the bankers' unwillingness to suggest anything other than "retailers ought either to change banks, or drop out of the food stamp program." Hardly constructive suggestions! And of course, no new services are being provided to justify these fees.

Our industry sought regulatory relief. FMI presented Secretary Block with a legal memorandum suggesting that this problem could be resolved through the existing authority of USDA and the Treasury Department. Senator Dole and Congressman Emerson also asked the department to look into this matter. Unfortunately USDA advised us that while they did have the authority, they would not initiate a rulemaking to preclude financial institutions from charging fees for the redemption of food stamp coupons.

Our last alternative is to seek a legislative remedy.

While food retailers obviously have an economic interest in the program, we believe that this issue is one of fairness and equity. We believe the intent of Congress was to prohibit all parties from charging extra to use food stamps.

FMI has estimated that the direct cost of handling food stamps in supermarkets is $288 per store per week, or approximately $15,000 per store each year.

If we assume $15,000 per store per year is a conservative estimate of the direct retailers' cost of handling food stamps, then the total industry cost for the 28,900 supermarkets in the United States is over $434 million dollars per year. This figure does not include the 94,000 grocery stores not large enough to be classified as supermarkets (those with total annual sales volume below 2 million dollars).

We cite these figures to show that banks have not been alone in incurring the costs in serving food stamp customers. They are alone in trying to shift these costs to someone else.

Food stamps are part of a program to serve the needy created by society at large, not by any one industry. In so far as possible, the burden of this program should be borne by society at large. Grocers treat these costs as part of their general business overhead. Bankers should do no less.

We hope the Committee can appreciate the implications for the future of the food stamp program. Retailers operate on a 1 percent net margin. In addition, we are prohibited from passing on our additional costs to the food stamp customer.

We appreciate the fact that S. 1142 recognizes this threat to the food stamp program and contains a provision expressly forbidding banks from charging retailers for depositing correctly bundled coupons. Your provision is almost identical to the one contained in H.R. 2422 as reported by the House Agriculture Domestic Marketing Subcommittee on June 13, 1985. We urge you to retain the provision throughout your markups so that this unwarranted assault on the food stamp program will be prohibited by law.

Coupon Staggering

Both House and Senate bills would stagger food stamp coupons issuance throughout the month, a provision not objectionable to FMI.

Unfortunately S. 1142 would prohibit retailers from raising food prices at the time coupons are issued. But if coupon issuance is to be staggered throughout the month this provision would seem to impose a permanent freeze on food prices.

Inclusion of the language would create an administrative nightmare for retailers and the Department of Agriculture, as well as constitute an unparalleled intrusion into the market place. We hope the provision will be removed from the bill.

Cash Change

S. 616 and S. 835 seek to eliminate cash change. S. 835 would require food stamp coupon users to pay all amounts exceeding an even dollar amount in cash.

FMI is urging that in resolving this difference the Department of Agriculture be prohibited from requiring that scrip be issued as change.

Countersignature of Coupons

S.835 provides that state agencies shall require a member household to sign a coupon at the time the coupon is issued and again when it is redeemed in the store. We urge strongly that this provision be rejected because we do not believe that retail store cashiers can, or should be, changed into enforcement officials. In addition to reducing sharply the efficiency at the front end of the store, there would have to be difficult administrative decisions made on how to allow household members to use the coupons when the individual whose signature is already on the stamp is ill, at work, or unable to be present for anyone of a hundred other reasons. Countersignatures may be approprite for travelers checks. They are not for food stamps.

Block Grants

S. 616 contains a provision allowing for optional block grants to be made to the states that elect to participate in such a program. FMI believes this would be a regressive step. We oppose changing the present program into block grants, even on an optional basis. Hunger and malnutrition are national problems. As a nation, we have decided to address and confront this problem uniformally across the country. That decision should stand.

If the Congress decided it wanted to reduce the size of the food stamp program, it would have to change the structure of the program itself. But, under a block grant system, it would be tempting simply to reduce the grant and tell the states to "work it out". Further, some states with high error rates could be tempted to switch to a block grant rather than undergo the financial and political embarrassment of heavy federal penalties due to poor administration of the present program.

Finally, on behalf of those retailers operating in more than one state, we ask the Committee to consider the confusion, increased overhead and decreased productivity that would result

from trying to conform with a different set of rules promulgated by each state. In short, we see nothing to be gained by changing the basic structure of the program as it currently exists.

FMI appreciates the opportunity of presenting for the record our thoughts on the issues of interest to our industry.

STATEMENT OF ELEANOR MARSHALL
FELLOW, HEALTH AND NUTRITION POLICY
COMMUNITY SERVICE SOCIETY

The Community Service Society appreciates this opportunity to express its views on some specific change we would like to see made in the federal food stamp program. CSS is a nonprofit, nonsectarian social agency committed to lessening poverty and improving the lives of the poor in New York City. We believe that hunger is escalating, that it is a national problem, exacerbated by homelessness, and a problem that must be addressed at the national level.

For decades, the food stamp program has played a key role in alleviating hunger. Recently, however, countless studies and press reports document evidence of growing hunger and malnutrition. Despite the economic progress made in this country generally, the proportion of the population living below poverty levels has increased and now comprises 15 percent of the total. Unemployment among the poor, espcially for blacks and Hispanics, and the budget reductions for other social programs have left more poor with little ability and fewer or no benefits to mitigate their poverty. Today the poor have less money with which to supplement their food stamps in order to buy more food. When bills for rent, heat and medical care also rise, there is even less money to spend on food. Soup kitchens and food pantries report that they are serving more and more people toward the end of the month who have exhausted both money and food stamps. Despite the growth of emergency food networks and the additional resources made available by some local and state governments for nutrition assistance, there is no substitute for a federal commitment to ensure adequate food assistance and public assistance for the poor throughout the country. Certainly, there is immediate need for Congress to redress the damage done by some of the administrative changes in the food stamp program made in recent years and to stop further food stamp losses in the fiscal year 1986 federal budget.

Most importantly, legislation is needed which will increase the adequacy and accessibility of food stamp benefits by making the eligibility requirements less restrictive and restoring some of the previously cut benefits. Although the basis used to determine maximum coupon allotments was restored to 100 percent of the cost of the Thrifty Food Plan, for some years benefits have been lagging behind the actual cost of that plan. Consideration should be given either to basing benefit levels on the prospective costs of food or to setting the benefit level above 100 percent of the plan's cost. Benefit levels would also be increased

by raising the ceilings on allowable deductions used to calcuate net monthly income. The earned income deduction of 20 percent should be restored because the current 18 percent disregard is not adequate to cover average work expenses. In addition, the combined excess shelter/dependent care deduction should be separated and higher ceilings attached. Currently, households which spend more than 50 percent of their net monthly incomes for shelter may deduct the excess costs up to a $125 cap. In New York City and other metropolitan areas, particularly in the Northeast and the West where rents and utility costs are high, the $125 cap is much too low. All costs above the cap have to be paid for out of meager income, part of which was meant to be spent for food. According to the New York State Department of Social Services, 38.7 percent of persons who qualify for the deduction have excess shelter costs greater than the $125 limit. The cap should be raised to $175. New York State estimates this would mean an increase in food stamp of about $270 a month per case, or about $6.90 for those now above the current limit on excess shelter deduction. Establishing a separate deduction for dependent care and capping it at $160 would benefit enormously parents with children who are seeking work as well as beneficiaries with high or no deduction for child care because the combined deduction is used to compensate for their high shelter costs. The Congressional Budget Office finds that 75 percent of all child care costs incurred by food stamp recipients cannot be deducted under the coupled deduction formula. A combined deduction was meant to exclude households with high income from qualifying for food stamps. The gross income eligibility limit of 130 percent of poverty adopted in 1981 effectively precludes such households from participating in the program.

CSS also endorses amending the Food Stamp Act to assure that the homeless can receive food stamp benefits. Further, we urge that payments made to homeless persons for the purchase of restaurant meals be excluded as income in determining eligibility and benefits.

In an effort to reduce paper work and to improve program administration in a cost-effective way, we recommend extending categorical eligibility for food stamps to AFDC, Supplemental Security Income, Social Security Disabiity Insurance and General Assistance recipients. We further recommend that the definition of household be changed so that the income of a non-responsible relative or acquaintance residing with the family on public assistance would not be included in household income in determining categorical eligibility.

Participation in the food stamp program is lower than would be expected, given the large poverty population. Studies show that lack of information is a major reason why many poor persons, particularly the elderly, fail to apply for food stamps. Therefore, we urge that federal funds for an outreach program be mandatory. Further, timely and valid data should be collected on the dietary status of the low-income population so that the extent of hunger in this country can be more accurately evaluated.

In closing, we would like to make a few comments on some proposed changes in the food stamp program which CSS opposes.

Allowing a state to receive a nutrition assistance block grant instead of a food stamp program we believe would further diminish federal responsibility for assuring adequate nutrition assistance to the nation's poor and would also eliminate any uniformity in benefits among the states. We also oppose reinstating the purchase requirement, an earlier provision of the Act which greatly inhibited program participation. Finally, mandating a workfare program for able-bodied recipients in order to obtain food stamps we find a punitive requirement. We urge the members of the Subcommittee to reject such proposals.

There is urgent need for Congress to reauthorize the food stamp program and to change those provisions which will improve the operation of the program and restore the ability of low-income Americans to secure at least a minimally nutritional adequate diet. Thank you again for the opportunity to address this issue.

STATEMENT OF THE LUTHERAN COUNCIL IN THE USA

The Lutheran Council's Office for Governmental Affairs represents three national church bodies: The American Lutheran Church, headquartered in Minneapolis, Minnesota, with 2.4 million members in 4,900 congregations; the Association of Evangelical Lutheran Churches, headquartered in St. Louis, Missouri, with 109,000 members in 273 congregations; and the Lutheran Church in America, headquartered in New York, New York, with 3 million members in 6,100 congregations.

Through direct service coupled with education and advocacy programs, these church bodies have focused deliberate efforts since the early 1970's toward the alleviation of world hunger and its roots in social and economic injustice. Because of this broad-based church focus, we have paid particular attention recently to the increase in the U.S. poverty rate and the resulting reappearance of domestic hunger.

Members of the Senate Agriculture Committee are aware of the painful discovery of hunger within U.S. borders in the late 1960's and of the decision of the U.S. Congress at that time to increase federal nutritional efforts towards furnishing an adequate diet for persons without the economic means to provide for themselves. Congress acknowledged its commitment to feeding the nation's poor through the passage of the Right to Food Resolution in 1976 and by declaring as the intent of the food stamp program in its 1977 reauthorization "... to safeguard the health and well-being of the Nation's population by raising levels of nutrition among low-income households."

In this country's road to economic recovery during the last four and one-half years, our national commitment to caring for the nutritional needs of the poor has been relegated a back seat as federal spending priorities have shifted and economic theories have focused primary attention on growth and prosperity. Because of the delicate balance between federal spending proposals, revenue raising measures and the record U.S. deficit, most legislative decisions related to domestic food assistance or other

national programs with any monetary implications have taken place in the context of the federal budget debate.

To set the stage for their national education and advocacy work related to the fiscal 1986 federal budget, earlier this year Lutheran bishops of all national and regional jurisdictions of the three church bodies represented by this testimony endorsed a statement on "The Poor and the National Budget" which offers the perspective that the federal government should maintain its responsibility of supporting the survival of poor Americans. "We believe that a top budgetary priority should be securing adequate funding for human needs and income maintenance programs, with federal standards ensuring that such funds are targeted to persons in greatest need," the bishops said. "The federal government has an appropriate role in meeting immediate needs as well as addressing the systemic causes of poverty."

It is within this framework that our Lutheran church bodies present this testimony related to the reauthorization of the food stamp program. We endorse food stamps as a federal program with eligibility and benefit standards that are consistent nationwide. We oppose any attempt to create a block grant to states for the operation of their own food stamp programs.

A major reason for the reappearance of hunger in the United States is the inability of food stamps and other domestic food assistance programs, because of recent budget reductions, to keep pace with the severity of economic conditions on some people, in some parts of the country. Budget cuts have forced people from the food stamp program. We believe that the solution to the domestic economic crisis on low income people is to move them out of poverty rather than simply removing them from the food stamp rolls and other public assistance programs. Removing them from food assistance merely makes poor people hungrier or weakens them through malnutrition. Until the nation can deal adequately with the growing level of poverty, we maintain it has a moral commitment to provide an adequate diet for the victims of that poverty.

Hunger and poverty are as much national problems now as they were in the 1960's when medical researchers found that major gaps in the nutritional well-being of poor families existed because each state designed and ran its own food stamp program. The national status of food stamps was established at that time to assure that low income families, regardless of where they happen to live, need not face hunger or malnutrition.

Please consider the following observations as you work toward reauthorization of the food stamp program:

* Eligibility standards should make the program available to all who meet income guidelines, regardless of family status.
* Minimum benefits should be uniform nationwide, according to adjusted income levels. The basic food stamp benefit allowed for a family with no other income should be sufficient to provide adequate nutrition for the family on an extended basis. The Thrifty Food Plan, which now serves as the basis for food stamp benefits, is inadequate for this purpose.

Since both of the above observations relate to the food stamp program as currently operated, we reinforce our position that the only way to ensure adequate eligibility standards and benefit levels is to maintain the program as a national entitlement. We maintain this position for the following reasons:

* The food stamp program is the only benefit program that provides a uniform benefit floor for poor families and children. Under the block grant approach this would be lost. It could lead to benefit reductions for certain types of poor families who generally have little political clout, as it has in cash welfare programs where benefit levels are generally set by the states.
* Under a block grant, states would not be able to respond to changes in the economy or to demographic changes. They would receive fixed amounts of money. If the funds would prove to be insufficient, benefits would most likely be cut or participation restricted. Currently more food stamps are automatically provided in a state if unemployent rises and more persons lack income sufficient to supply their basic needs. It is simply not possible to design a fixed grant program that adequately responds to changing needs.
* Persons ought to be encouraged to relocate, if necessary, to obtain employment adequate to support themselves and their families. The national status of the food stamp program must be maintained to provide consistent nutritional support to the families of persons seeking employment, regardless of where they must live.
* The experience with the Puerto Rico block grant gives cause for serious concern. It began in fiscal 1982 at an $825 million funding level has remained frozen since fiscal year 1982 and Puerto Rico has been forced to reduce average benefits for families above 12 percent of the poverty line.

Because of these concerns, we urge the committee to:

* Maintain the food stamp program as a national entitlement.
* Increase benefit levels consistent with H.R. 2422 as endorsed by the House Subcommittee on Domestic Nutrition, Consumer Relations and Nutrition.
* Adjust funding for the Puerto Rico block grant consistent with the increase in their cost of living.

STATEMENT OF THOMAS K. ZAUCHA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL GROCERS ASSOCIATION

The National Grocers Association (N.G.A.) appreciates this opportunity to provide the Committee its views on the food stamp reauthorization legislation for fiscal year 1986, which is a subject of great importance to our members and our nation. The Senate Agriculture Committee continues to play a crucial role in the development and on-going effectiveness of our federal food programs which are a vital service to our nation's needy and an im-

portant ingredient in the direction of our domestic agricultural policy.

Prior to beginning an analysis of the complex issues before the Committee, the N.G.A. would like to take the opportunity to express our strong support for the vast majority of the contents of S. 1142, and for the outstanding contributions that the bill's sponsor, Senator Dole, and the co-sponsors, Senators Boschwitz, Leahy, Danforth, and Andrews have made on this issue. The question of hunger in America and the appropriate role for domestic food assistance programs is at the center of our nation's agriculture policies which are debated by this Committee. To obtain the proper balance between meeting the needs of the disadvantaged, insuring the continued and efficient cooperation of small business, and reaching these goals with the necessary budgetary discipline is a difficult task. The N.G.A. believes, however, that S. 1142 is a significant step in the right direction.

N.G.A. is a national trade association representing 2,000 retail grocers, 62 wholesale distribution centers serving 28,000 retail food stores and 60 state and local associations, which in totality represent over 45,000 retail grocers. Our members have long cooperated with the U.S. government in its efforts to provide a varity of services to consumers in communities throughout our nation. In assuming their responsibilities, retailers have always performed a voluntary service, with no special charges being imposed for their services, nor any special funds being reimbursed to our members by the U.S.D.A. for their efforts. Retail grocers have strongly supported this continuing effort because we recognize that the food stamp program is an efficient and effective means to assist those in need.

It is important to focus on several issues of substantial importance to N.G.A. members, including the practice of banks of assessing handling fees to retailers who process food stamps and the proposed amendment to the food stamp act of 1977 which calls for the imposition of a $50 licensing fee on the same retail food stores who participate in the food stamp program. This amendment is embodied in Chairman Helms' bill, S. 969.

The increasing trend of financial institutions to charge a fee for the deposit of food stamps has become a threat to retailers' participation in the food stamp program. N.G.A. recognizes that S. 1142 clearly provides for language which would amend the food stamp statute and would prohibit a "financial institution from imposing or collecting a fee or other charge for redemption of coupons." This provision is a precise and appropriate legislative step to remedy the beginning of a far reaching problem and it has N.G.A.'s full support.

Federal regulations are very explicit in prohibiting food retailers from any type of discrimination against food stamp recipients by charging increased prices for the commodities or by imposing special fees. The Food Stamp Act of 1977, U.S.C. Section 201, is clear in stating in part, "Coupons issued and used as provided for in this chapter shall be redeemable at face value by the Secretary through the facilities of the Treasury of the United States." 7 U.S.C. Section 2012(a).

U.S.D.A. regulations require retail stores who participate in the program to "accept coupons for eligible foods at the same prices and on the same terms and conditions applicable to cash purchases of the same foods at the same store." 7 C.F.R. Section 278.2(b). Even where these regulations not present, N.G.A. would steadfastly oppose any policies of passing on costs to the recipients as being inimical to the spirit and intent of the food stamp legislation and counterproductive to the millions of recipients who are attempting to make ends meet.

N.G.A. recognizes that all businesses have the need to cover their own costs for going about their work. However, we strongly feel on the question of food stamps that financial institutions should seek to cooperate with retail grocers who participate in this program voluntarily, receiving no special fees and who incur clear administrative costs for their involvement. This federal program requires the businesses and organizations throughout our nation to lend a helping hand, and the banks should be no exception.

Last year, Jim Stoll, testifying on behalf of the National Grocers Association, before the House Agriculture Subcommittee on Domestic Marketing, Consumer Relations and Nutrition provided some personal illustrations of this practice. Mr. Stoll noted that this problem was recurring throughout the country--with supermarkets in Cleveland, Ohio, being assessed a fee ranging between $.02 and $.05 per coupon and retailers in Utah being charged a fee ranging between $.01 and $.03 per coupon.

Throughout this time, these combined obstacles represent a negative cash flow for the retailer--all of this in an industry where the average annual margin on profit is about 1 percent. In short, N.G.A. members, like so many other small working businesses throughout our country make a series of professional sacrifices to comply with the law and to meet our commitment to those who are less fortunate than we are.

In attempting to cope with these policies, our members have found them neither isolated nor minimally imposed. Early industry surveys reveal that 25 percent of the grocers were being charged bank fees. While the penalty fee differs by state, the average fee is in the range of $.02 or $.03 per coupon. Nationalized such a fee would impose added costs to the retail food stores of about $60 million or more per year, certainly not a paltry sum. As the data and the evidence continue to accumulate, this problem escalates, potentially and the evidence continue to accumulate, this problem escalates, potentially threatening and undermining the future of this federally funded program.

N.G.A. and other food retail trade associations met with the U.S.D.A. seeking to resolve this problem. Last year, N.G.A. noted in our House testimony that the Food Stamp Act of 1977 gives sufficient authority to the Secretary of Agriculture, working cooperatively with the Department of Treasury, to regulate financial institutions participating in the food stamp program redemption process. The law states in part that:

Regulations issued pursuant to this chapter shall provide for the redemption of coupons accepted by retail food stores through approved wholesale food concerns or through financial institu-

tions which are insured by the Federal Deposit Insurance Corporation, with the cooperation of the Department of the Treasury.

Regretably, the U.S.D.A. does not share our interpretation of the regulations and has informed N.G.A. that they do not intend to initiate any rulemaking procedures "to preclude financial institutions from charging fees for the redemption of food stamp coupons." They base their refusal on the possibility that "the rising number of financial institutions where retailers may redeem coupons will increase the competition and thus help curtail financial institution service fees." What has in fact occurred is that there are now more financial institutions partaking in the redemption process, and engaging in the practice of assessing fees to the retailers. The free market does not always engender financial relief for all parties concerned, and this is but another example where the money is floating to the top when it should be staying in the pocket of the consumer.

N.G.A. has reluctantly turned to Congress to address this issue. This inequitable situation continues to grow, and threatens to undermine the very integrity of a major component of the food stamp program. Necessary steps to remedy this evil have been introduced in both the House and the Senate. On Thursday, June 13th, the House Subcommittee on Domestic Marketing, Consumer Relations and Nutrition approved H.R. 2422 with provisions similar to S. 1142 which places restrictions on financial institutions from imposing fees for the redemption of coupons. Similar language was included in H.R. 5151, passed by the full House last year, but was not considered by the Senate in spite of very strong appeals made by Senator Durenberger.

N.G.A. strongly believes that a unified approach on this matter which has already been displayed by the House and Senate can insure that this burdensome penalty will be removed from retail grocers throughout our nation. With bipartisan support in both the House and Senate Agriculture Committees for this amendment, N.G.A. believes it is appropriate to move responsibly but expeditiously to seek the full support of the Congress on this particular language. Such a measure will insure fair and equitable treatment for food stamp recipients and retailers and will restore the traditional balance that has served this program so very well through the years.

A related concern is a recent proposal from the U.S.D.A. seeking to impose a $50 licensing fee on retail food stores participating in the food stamp program. Senator Helms has introduced this measure on behalf of the Administration in S. 969. N.G.A. strongly opposes this attempt to saddle American small business with yet another onerous roadblock from performing their task properly.

The U.S.D.A. not only fails to effectively deal with the issue of bank charges, but compounds the problem by adding a licensure fee. This is yet another burden placed on retailers by poorly conceived government policy. The retailer, who merely processes the food stamps, is once again in the middle--assisting the government with a program to aid our nation's poor who are most in

need of food assistance, and at the same time fending off the over zealous regulator.

One possible rationale for this concept is that such a fee would deter potential fraudulent operators with questionable food stamp operating practices from continuing their participation in the program. There has not been a single bit of data offered to support this thesis. There are not examples provided for illustration. Let alone to justify a policy of this type, that would demonstrate that retail food stores anywhere are taking advantage of this program. Nor is there any reason to believe that even if such data were provided, that a licensure fee such as this would deter them. People who might wish to take advantage of this program will do so in spite of this fee. It would only serve to punish the honest and reputable retailer who is attempting to serve his country and his community at the same time.

Another major concern is that this tax would set the precedent for further increases in upcoming years. For example, the Committe should keep in mind the increasing burdens that the Perishable Agriculture Commodities Act, also administered by this department, has placed on these same retailers. The license fee has grown 18 fold since its adoption. It started out as a $10 fee and that has grown to the point where retailers now pay a minimum of $180 per year, to a maximum of $1,200 per year. The old axiom still applies--if we can find a way to levy a tax, we will--and in this instance the tax may increase more and more. This fee is a clear step backward in assuring recipients access to retail food stores. This is a proposal that should be squashed before it has the chance to be hatched. N.G.A. respectfully requests the support of the Committee in voicing your disapproval of this idea and defeating the licensure when it comes before the Committee.

Finally, N.G.A. would like to note our concern with the proposed amendments in S. 1142 dealing with the issuance of coupons. Language inserted in Section 7(b) of the Food Stamp Act of 1977 would "prohibit retail or wholesale food stores from increasing the price of food at any time during the month, if the increase is the result of the issuance of coupons to the customers of the store." Such a provision seems unnecessary and potentially counterproductive to efficient food store operations. N.G.A. urges that this section be withdrawn.

In summation, N.G.A. members call upon this committee to continue the work that they have been doing, retaining the balance, fairness and continuity in these very important programs. N.G.A. supports legislation that prohibits all institutions participating in the food stamp program, including retail grocery stores, wholesalers and banks to assess or pass on any fees or charges in connection with the processing or redemption of food stamps. N.G.A. believes that this policy very carefully reflects the equity that was originally intended in the legislation, and hopes you will join us in continuing to work in that direction.

Puerto Rico
Federal Affairs Administration

June 24, 1985

The Honorable Robert Dole
Chairman
Subcommittee on Nutrition
Committee on Agriculture, Nutrition and Forestry
U.S. Senate
141 Hart Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to the June 14, 1985 Oversight Hearing on the Reauthorization of the Food Stamp Program conducted by your Subcommittee, we are submitting testimony for the record on behalf of the Governor of the Commonwealth of Puerto Rico, the Honorable Rafael Hernandez-Colon.

In his testimony, Governor Hernandez-Colon supports the continuation of the direct benefit (cash-out) feature of the Nutrition Assistance Program (NAP), and urges your Subcommittee to consider legislative action to index the NAP block grant for inflation.

If you need additional information on this matter, please contact this Office.

Cordially,

Jose A. Ortiz Daliot, Director

Enclosure

STATEMENT OF RAFAEL HERNANDEZ-COLON
GOVERNOR, COMMONWEALTH OF PUERTO RICO

Mr. Chairman, Distinguished members of the Senate Subcommittee on Nutrition, as Governor of the Commonwealth of Puerto Rico, I welcome this opportunity to submit testimony for the record on the Nutrition Assistance Program (NAP), an issue which is of great importance to your 3.5 million fellow American citizens of Puerto Rico.

Senate bills S. 969, S. 1142, and S. 616, being considered by this subcommittee, all propose elimination of the non-cash benefit requirement mandated in the Omnibus Budget Reconciliation Act of 1982. Furthermore, Senate bills S. 969 and S. 1142 propose the elimination of single agency requirement in benefit distribution and removal of the mandate that Puerto Rico pay 50 percent of administrative costs to implement the program. In this regard, they compare favorably with the House version, H.R. 2422.

Nonetheless, the Senate bills fail to include a provision to index the program for inflation, as provided in H.R. 2422, approved by the House Subcommittee on Domestic Marketing, Consumer

Relations and Nutrition on June 13, 1985. The modest increase contained in H.R. 2422 is justified in view of the increase in food costs in Puerto Rico, which are higher by half a percentage point over the national averge. (John Stokes from USDA, in his testimony before the House Interior & Insular Affairs Committee on February 22, 1985, stated that food costs in Puerto Rico increased by 3.6 percent from June 1982 to June 1984, compared to 3.1 percent for the United States.) Increases in food costs, during the past four years, have lowered the acquisition value of the assistance that low-income households are receiving. I urge this committee to incorporate in the bill that is ultimately approved a provision to index NAP for inflation.

The Puerto Rico NAP program was implemented on July 1, 1982, as a result of the Omnibus Budget Reconciliation Act (Public Law 97-35). This law removed Puerto Rico from the National Food Stamp Program and instituted in its place a block grant with an annual ceiling of eight hundred twenty-five million dollars ($825 million). This figure represented a twenty-five percent reduction in funding from what Puerto Rico would have received that year in food stamps. The block grant was designed to provide Puerto Rico the flexibility to operate a nutrition assistance program that would be best suited for the commonwealth's needs.

Faced with this severe cutback and the new administrative responsibilities the block grant entailed, Puerto Rico established a direct benefit system whereby program beneficiaries receive a monthly check. In addition, the program's eligibility levels were reduced from a gross annual income of eleven thousand dollars ($11,000) to eight thousand dollars ($8,000) for a family of four. During the first year of NAP (1983), the number of participating households was reduced from 506,000 to 493,000 in 1983 and to 413,000 in 1984. This represents a reduction of slightly over 16 percent.

In September of 1982, the Omnibus Budget Reconciliation Act of 1982, (Public Law 97-253) ordered Puerto Rico to change to a non-cash issuance system, despite the fact that the program had only been in operation for two months and contrary to the block grant concept of flexibility. This non-cash requirement was subsequently eliminated until September 30, 1985, by Public Law 98-204. This law also called for a United States Department of Agriculture evaluation of the NAP and of its effect on household food expenditures and nutritional aspect of the participants' diet. The United States Department of Agriculture's (USDA) report Evaluation of the Nutrition Assistance Program in Puerto Rico, submitted to Congress on July 1, 1985, concludes that providing benefits in the form of cash rather than coupons has had little or no effect on the food expenditures or quality of diets of households in Puerto Rico.

The USDA study states that under food stamps, the income eligibility level for January 1985 is thirteen thousand two hundred sixty dollars ($13,260), compared to eight thousand dollars ($8,000) in Puerto Rico, a difference of thirty-nine percent. While the national food stamp program has increased from approximately eleven thousand dollars ($11,000) in 1982, the NAP figure has remained the same.

There is also a difference in the maximum monthly benefits for a family of four. Again, according to the June 1, 1985 USDA study, the NAP maximum monthly benefit is one hundred ninety-nine dollars ($199), which is lower than the two hundred twenty-one dollars ($221) benefit for Puerto Rico in the last year of the Food Stamp Program. However, the maximum monthly benefit under the national food stamp program has increased from two hundred thirty-three dollars ($233) in 1982 to two hundred sixty-four dollars ($264) in 1985. (U.S. Department of Agriculture, Evaluation of the Nutrition Assistance Program in Puerto Rico, Mathematica Policy Research, June 1, 1985, p. I-3.) Moreover, the family benefit in Puerto Rico may change every month according to the number of people in the program and the funds that are available.

As you consider the reauthorization of NAP, I ask you to keep in mind other factors which contribute to this funding need. Puerto Rico does not participate in the supplemental security income program (SSI) and has severe funding limitations in other programs such as Aid to Families with Dependent Children (AFDC) and Medicaid. Furthermore, the income levels in Puerto Rico are considerably lower than in the United States, and the unemployment rate climbed from 10.1 percent in 1970 and peaked at 23.5 percent in 1983 declining to 20.7 percent from 1984. Thus, the NAP program was implemented during a period of protracted economic crisis in Puerto Rico.

The NAP check system has been in effect for nearly three years. During that time, it has gained the support of both major political parties on the island, as well as the support of the program beneficiaries.

Savings in administrative costs ranged from a peak of $58.1 million in 1981 to a lower figure of $44.9 million in 1984, a reduction of almost 25 percent. In addition, savings in administrative costs to the Federal Government as a result of the cash assistane feature of NAP are significant and estimated to be around $3 million; $2 million from eliminating food stamp printing and shipping costs, and $1 million from non-utilization of the retail authorization and compliance monitoring system.

These savings have allowed us to direct more funds to the beneficiaries. This has been extremely important considering the limited funds we have available . By sending the checks directly through the mail, long food stamp lines have been eliminated. Moreover, the checks fully protect the dignity of recipients; participants no longer must publicly reveal their indigent condition whenever they purchase food. A direct result of this has been that the social services department personnel can devote more time to eligibility verification procedures. Furthermore, people no longer have to take time off from work to wait for their benefits. Finally, groups with special needs such as the elderly and the disabled find it easier to participate in the program.

I am aware of your concerns regarding the possibility that the checks may be used to purchase items other than food.

The June 1, 1985, U.S. Department of Agriculture NAP evaluation report shows the results of group discussions in which partici-

pants stated that cashing in coupons for less than face value was common under the food stamp program, and that about the same percentage is spent for food under NAP as under food stamps. Moreover, while the net benefits under NAP have been reduced, food consumption continues to increase. (See Tables I and II)

In addition, we have taken measures to prevent the misuse of funds such as quality control methods, better verification procedures, home visits, and increasing legal procedures against those who abuse the system.

The Senate bills are silent on the special programs which have been a part of the legislation in the past. Public Law 97-35 permits the Commonwealth of Puerto Rico to "employ a small proportion of the block grant funds to finance projects that the government of the commonwealth believes likely to improve or stimulate agriculture, food production, and food distribution, which will increase the self-sufficiency and nutritional standard of needy citizens residing in the commonwealth." Under the reauthorization in the House side, Puerto Rico would have flexibility regarding the special projects. The special projects amounted to approximately twenty-five million dollars ($25 million) annually. We are aware of the concerns regarding the amount of money devoted to these projects as well as their viability. As a result of these concerns and through discussions with the United States Department of Agriculture, Puerto Rico decided to reduce the amount allocated for fiscal year 1986 for special projects to seven point three million dollars ($7.3 million). This decision will benefit the nutritional assistance program participants because it will increase the amount available for distribution by eighteen point six million dollars ($18.6 million) a year. This is consistent with the Government's to target maximum benefits to the truly needy citizens of Puerto Rico.

In conclusion, Mr. Chairman, I fully support the continuation of the check benefit system and an inflation index for the block grant. Although we would prefer to go back to equal treatment under the national food stamp program, we realize this to be an unrealistic proposal given the size of the projected federal deficit. However, we must not let the concerns over deficits blind us as to the intent of the nutrition assistance program, which is to provide an adequate diet for the needy people of the Commonwealth of Puerto Rico. If the program is not adjusted for inflation, we will have to reduce the number of participants and the amount of benefits. We believe that the health of the NAP's participants as well as their ability to function as productive members of society by far outweigh any other considerations.

In addition, we believe that program continuity is crucial, changing to a different system could disrupt benefit delivery and increased administrative costs, thereby limiting fund availability.

I thank you for giving me the opportunity to submit this testimony and will provide any additional information you may need on this matter.

○